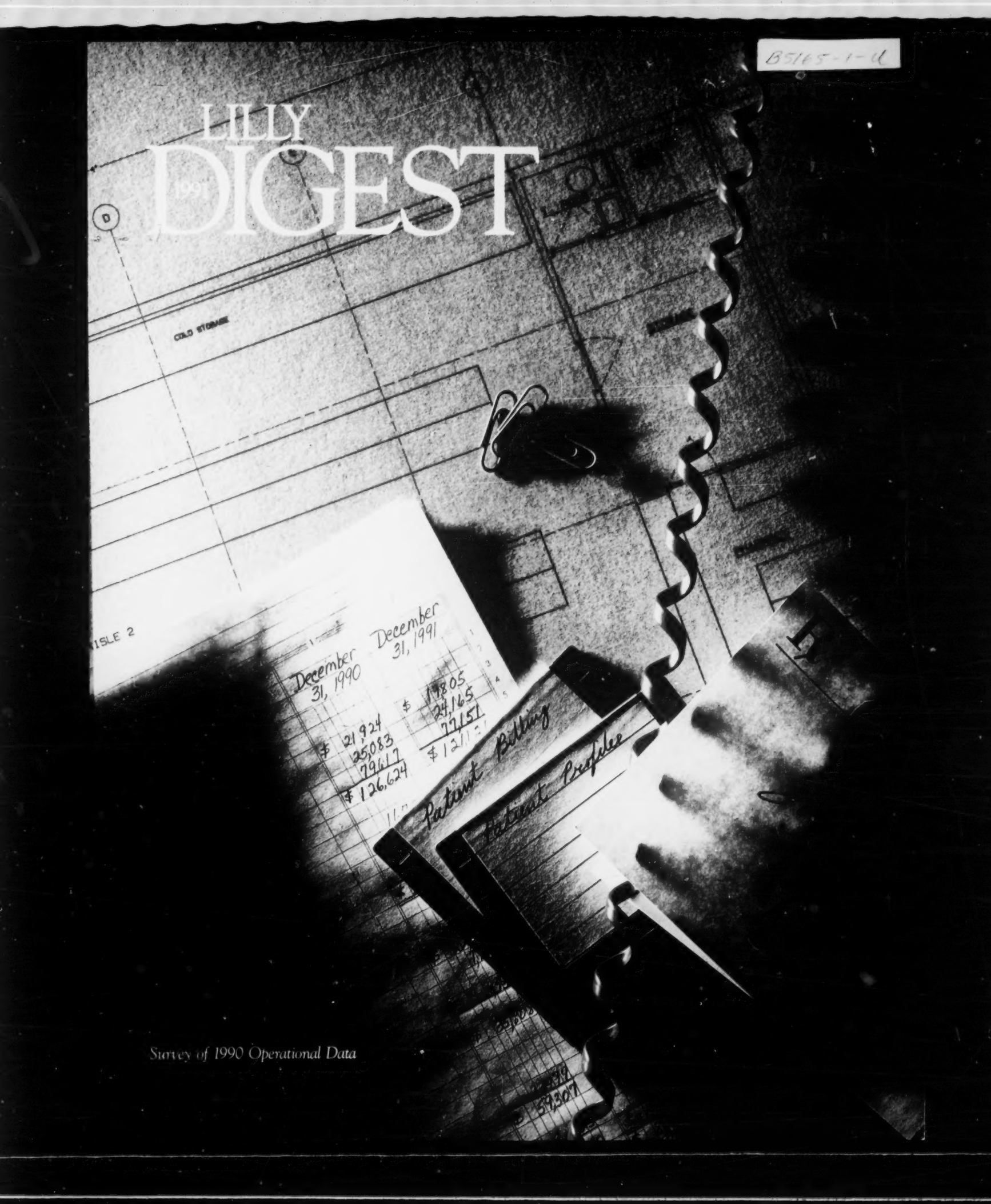
B5165-1-11
LILLY
DIGEST
1991
COLD STORAGE
ISLE 2
December 31, 1990
December 31, 1991
$ 21,924
25,083
79,617
$126,624
$ 19,805
24,165
77,151
Patient Billing
Patient Profiles
Survey of 1990 Operational Data

A summary of the 1990 operations of 1,727 independent community pharmacies.

The most comprehensive report of independent community pharmacy operations available.

Published annually in the interest of sound pharmacy management.

Eli Lilly and Company
Lilly Corporate Center
Indianapolis, IN 46285

Editor:
J. Michael Varnell, RPh
317-276-6009

Technical Assistance:
Steven P. Ackley
Lisa C. Carver
Helen E. Jenkins
Joyce A. Kelly
Lily K. Zahed

Design:
Charles G. Russell

Participating pharmacists, owners of community pharmacies, Lilly wholesalers, colleges of pharmacy, university libraries, pharmacy associations, the press, and selected others may receive free copies of the LILLY DIGEST. Copies may be obtained directly from Eli Lilly and Company or from Lilly/Dista/Select Products representatives. Others who wish to purchase copies of the LILLY DIGEST may do so by calling 317-276-3641. All orders will be billed for $30.

CORPORATE MISSION

Eli Lilly and Company is a global research-based corporation that develops, manufactures, and markets pharmaceuticals, medical instruments, diagnostic products, and agricultural products.

To guide its affairs, the company follows certain fundamental principles. These principles, which we believe are in the best long-term interests of all shareholders and society as a whole, are the following:

The company is committed to the discovery and marketing of innovative products of the highest quality that offer benefits to customers in all of our markets.

The company is dedicated to the highest levels of ethics, integrity, and excellence in research, manufacturing, marketing, and all other phases of its operations.

The company recognizes a primary responsibility to its employees because of the key role employees play in the achievement of corporate goals.

The company's objective is to attract and retain outstanding people at all levels and in all parts of the organization. It is committed to fair and equitable treatment of all employees, to the creation of an environment that recognizes the value of diversity, and to policies and programs that offer the opportunity for employees to develop meaningful and rewarding careers.

The company believes that it has an obligation to be a good corporate citizen wherever it operates and that it has a responsibility to conduct its operations in a manner that protects human health and the environment.

FOREWORD

During the 1930s, Mr. Eli Lilly saw a need to help independent retail pharmacies survive the economic hardships brought on by the great depression. He asked Paul Olsen, faculty member at Philadelphia College of Pharmacy, to develop a financial analysis service for pharmacists. This was the beginning of the LILLY DIGEST. Eli Lilly and Company has been providing the LILLY DIGEST to retail pharmacists for 59 years. The main purpose of the DIGEST has not changed from that outlined in the first volume in 1932: "A comprehensive reference source to be used by drug store management to improve profitability."

The LILLY DIGEST is designed to be used by independent community pharmacy managers in the evaluation of their pharmacy operating data. It contains operating information derived from voluntary submissions by community pharmacists throughout the United States. The DIGEST makes no attempt to define or structure the sample. It presents the averages of reported data without editorial comment.

The heart of the LILLY DIGEST (pages 13 through 24) contains 30 summaries of 1990 operating figures, arranged according to total sales volume and daily prescription activity. For comparative purposes, a manager can readily isolate the summary that is most similar to the operation being analyzed.

Eli Lilly and Company appreciates the assistance of the 1,727 pharmacies that submitted operating data. Without their participation, this edition would not have been possible. Some of the charts and tables in the DIGEST are based on data from fewer than the total number of participants since all respondents did not answer every question or submit 12 months of data.

LILLY ANALYSIS SERVICE

The Lilly Analysis Service is designed to support management's financial review. Operating data from any community pharmacy can be analyzed at no charge. The service is available to any pharmacist upon request and all information is kept strictly confidential.

After a pharmacy's figures are received, they are audited and computerized. The printouts are then analyzed by staff experts, and a written report is mailed directly to the designated addressee. If the address given is adequate for mailing, no name need be submitted.

To receive a free personal and confidential analysis, contact the Lilly Analysis Service, Department MC-610, Eli Lilly and Company, Indianapolis, Indiana, 46285 or call (317) 276-3641.

TABLE OF CONTENTS

	Page
CORPORATE MISSION	
FOREWORD	
EXECUTIVE SUMMARY An overview of current operating statement and balance sheet trends	2
SALES VOLUME SUMMARY Selected operating statistics arranged according to total sales volume	5
PRESCRIPTION ACTIVITY Operating figures presented according to the number of prescriptions dispensed	8
RENT Rent correlated with a number of factors	10
NET PROFIT Net profit percentages arranged by sales volume. The influence of inventory turnover on profitability	12
THE HEART OF THE LILLY DIGEST	13
BALANCE SHEET AND FINANCIAL RATIOS Trends in balance sheet and financial ratio figures by pharmacy age and sales volume	25
GEOGRAPHIC SUMMARY Selected operating data arranged by region	28
OPERATING TRENDS A 10-year review of pharmacy financial statements	30
PHARMACY LOCATION Selected operating statistics arranged by store site	32
SELECTED SERVICE DATA Selected statistics on long-term care, HMO, PSAO, and buying group data arranged by region	34
CONCLUSION	36
ANALYSIS WORK SHEET	37

EXECUTIVE SUMMARY

For the 41st consecutive year, participating LILLY DIGEST pharmacies reported increased sales, setting a new record—an average of over $900,000 (Table 1). Total sales grew by 13.3% during 1990; that result is well above the growth of 5.6% observed in 1989. Although total sales increased during 1990, the cost of goods sold also advanced, resulting in a gross margin decrease to 30% of total sales, the lowest in the history of the LILLY DIGEST. It is interesting to note that in light of this decrease in gross margin percent, gross margin dollars increased to over $275,000, the highest in the history of the LILLY DIGEST.

Prescription sales increased 14.9%, and other sales grew 9.2% from the previous year. In the typical LILLY DIGEST community pharmacy, prescription income accounted for 73.1% of total sales. This represents a new record in total prescription sales as well as prescription revenue as a percent of total sales.

As a result of a decline in employee wages, proprietor's salary, and depreciation, 1990 total expenses fell to a record low of 27.1% of total revenue. Net profit before taxes increased 7.1% to $26,668—this represents a $1,776 increase from 1989. Net profit was 2.9% of total revenue, down from the previous year's 3.1%.

Managers may attempt to maintain profit in light of a declining gross margin percent by raising prices when competition allows, eliminating unprofitable third party plans, reevaluating purchase practices, decreasing total expenditures, and/or reviewing current theft deterrents.

Although total expenses as a percent of sales decreased in 1990, expenses increased dollarwise (up $21,340 or 9.4%). Average proprietor's or manager's salary as a percent of sales dropped by 0.2% to 5.7% but increased $4,576 or 9.5% over the previous year. Employee wages increased in dollars, but declined to 8.9% of total sales. Rent advanced over 9.8% in dollars, but experienced a downward trend as a percent of sales at 2.2%. Miscellaneous operating expenses increased by $4,767, a 12.5% increase over the previous year's figure. The share of the sales dollar represented by miscellaneous operating expenses remained the same when comparing the results in 1990 to 1989. The increase in net profit dollars and in the salary drawn by the proprietor/manager resulted in a new high for total proprietor's income of $79,369. This represents a $6,352 or 8.7% increase over the previous year. Proprietor's total income decreased from 9.0% to 8.6% of total sales in 1990.

Although total inventory dollars increased, inventory expressed as a percent of sales declined to 12.8%. Prescription inventory cost $7,201 more during 1990; as a percent of prescription sales, it decreased to 9.9%. Merchandise inventory, excluding prescription items, decreased slightly from 21.2% to 20.7% of sales but was higher in dollars of inventory than in the previous year. Average inventory turnover increased from 5.4 to 5.6 times.

Merchandise selling space in the average independent community pharmacy increased approximately 2% to 2,838 square feet during 1990. Sales productivity per square foot of floor area increased approximately $33 to about $323. This increase was the result of an increase in total sales volume even in light of an increase in floor space. The hours of operating in the typical LILLY DIGEST pharmacy remained unchanged for 1990 at 60 hours per week.

A modest increase (3.5%) in prescriptions dispensed, accompanied by a rise of $2.02 (11.0%) in the average prescription charge, resulted in increased prescription sales. The average prescription charge in 1990 was $20.39. (The upward trend in the average prescription charge noted over the past several years is often cited as evidence that prescription prices are rising. However, this statistic alone may not support such a conclusion since it is not known if the average number of days of therapy have increased, decreased, or remained the same.) The share of new prescription activity decreased to 51.1% of total prescriptions from 51.9% the previous year.

Prescription sales per pharmacy hour open increased by 14.9% during 1990 to more than $215. Prescriptions dispensed per hour trended upward to 10.6 from 10.2 the previous year. Partly as a result of a decrease in hours open per week, this figure has generally increased during the past decade.

Balance Sheet

Table 2 summarizes the Balance Sheet Data submitted by 845 pharmacies. When compared with 1989 data, net working capital increased by $2,663. The rise in current assets came from increases in accounts receivable and inventory. Although current assets and current liabilities showed an increase in dollars, current assets decreased as a percent of total sales.

Dollars of total liability increased in 1990, advancing to 10.3% of total sales versus 10.2% the previous year. Net worth increased $2,746 (up 3.0%) during 1990. Return on investment (ie, net profit on net worth) decreased to 19.5% of total sales, a substantial increase from the 23.3% reported the previous year.

Table 1 *Current trends in pharmacy operations*

Averages per Pharmacy	1990 (1,575 Pharmacies)	1989 (1,684 Pharmacies)	Amount and Percent of Change
Sales			
Prescription	$671,505— 73.1%	$584,539— 72.1%	+$ 86,966—14.9%
Other	246,813— 26.9%	226,002— 27.9%	+$ 20,811— 9.2%
Total sales	$918,318—100.0%	$810,541—100.0%	+$107,777—13.3%
Cost of goods sold	642,785— 70.0%	558,124— 68.9%	+$ 84,661—15.2%
Gross margin	$275,533— 30.0%	$252,417— 31.1%	+$ 23,116— 9.2%
Expenses			
Proprietor's salary	$ 52,701— 5.7%	$ 48,125— 5.9%	+$ 4,576— 9.5%
Employees' wages	82,158— 8.9%	75,298— 9.3%	+$ 6,860— 9.1%
Rent	20,643— 2.2%	18,798— 2.3%	+$ 1,845— 9.8%
Utilities	8,233— 0.9%	7,726— 1.0%	+$ 507— 6.6%
Accounting, legal, and other professional fees	3,782— 0.4%	3,403— 0.4%	+$ 379—11.1%
Taxes (except on buildings, income, and profit) and licenses	12,412— 1.4%	11,196— 1.4%	+$ 1,216—10.9%
Insurance (except on buildings)	9,705— 1.1%	8,686— 1.1%	+$ 1,019—11.7%
Interest paid	5,961— 0.6%	5,414— 0.7%	+$ 547—10.1%
Computer	3,044— 0.3%	3,206— 0.4%	−$ 162— 5.1%
Depreciation (except on buildings)	7,441— 0.8%	7,655— 0.9%	−$ 214— 2.8%
Miscellaneous	42,785— 4.7%	38,018— 4.7%	+$ 4,767—12.5%
Total expenses	$248,865— 27.1%	$227,525— 28.1%	+$ 21,340— 9.4%
Net profit (before taxes)	$ 26,668— 2.9%	$ 24,892— 3.1%	+$ 1,776— 7.1%
Proprietor's withdrawals	52,701— 5.7%	48,125— 5.9%	+$ 4,576— 9.5%
Total income of self-employed proprietor (before taxes on income and profits)	$ 79,369— 8.6%	$ 73,017— 9.0%	+$ 6,352— 8.7%
Value of inventory at cost and as a percent of sales			
Prescription	$ 66,670— 9.9%	$ 59,469— 10.2%	+$ 7,201—12.1%
Other	51,095— 20.7%	47,835— 21.2%	+$ 3,260— 6.8%
Total value	$117,765— 12.8%	$107,304— 13.2%	+$ 10,461— 9.7%
Annual rate of inventory turnover	5.6 times	5.4 times	
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	479 $401.37	460 $1,270.74	+ 19— 4.1%
Other	2,359 $104.33	2,333 $ 96.87	+ 26— 1.1%
Total size	2,838 $323.22	2,793 $ 290.20	+ 45— 1.6%
Number of prescriptions dispensed			
New	16,832— 51.1%	16,510— 51.9%	+ 322— 2.0%
Renewed	16,100— 48.9%	15,310— 48.1%	+ 790— 5.2%
Total prescriptions dispensed	32,932—100.0%	31,820—100.0%	+ 1,112— 3.5%
Prescription charge	$20.39	$18.37	+$ 2.02—11.0%
Number of hours per week			
Pharmacy was open	60 hours	60 hours	0
Worked by proprietor	55 hours	55 hours	0
Worked by employed pharmacist(s)	28 hours	26 hours	2
Sales and prescription activity per pharmacy hour open			
Prescription sales	$215.23	$187.35	+$ 27.88—14.9%
Other sales	$ 79.11	$ 72.44	+$ 6.67— 9.2%
Prescriptions dispensed	10.6	10.2	+ 0.4 — 3.9%
Percent of total prescriptions covered by			
Medicaid	18.1%	16.8%	
Other third party	22.3%	22.3%	

*Based on averages of pharmacies that reported all data

NOTE: These national averages are presented to give a composite picture of the average LILLY DIGEST pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription volume that appear in 1 of the 30 arrangements in "The Heart of the LILLY DIGEST" (pages 13-24).

Table 2 *Current trends in balance sheet information and financial ratios*

Averages per Pharmacy	December 31, 1990 (845 Pharmacies)	Percent of Sales	December 31, 1989 (1,019 Pharmacies)	Percent of Sales	Amount and Percent of Change
Assets					
Current assets					
Cash	$ 21,827— 14.1%	3.6%	$ 21,924— 14.6%	3.8%	−$ 97— 0.4%
Accounts receivable	26,944— 17.4%	4.5%	25,083— 16.7%	4.3%	+$ 1,861— 7.4%
Inventory	81,822— 52.7%	13.6%	79,617— 53.0%	13.8%	+$ 2,205— 2.8%
Total current assets	$130,593— 84.2%	21.7%	$126,624— 84.2%	21.9%	+$ 3,969— 3.1%
Fixed assets less depreciation	16,076— 10.4%	2.7%	16,754— 11.1%	2.9%	−$ 678— 4.1%
Other assets					
Prepaid expenses, deposits, etc.	8,462— 5.4%	1.4%	6,952— 4.7%	1.2%	+$ 1,510—21.7%
Total assets*	$155,131—100.0%	25.8%	$150,330—100.0%	26.0%	+$ 4,801— 3.2%
Liabilities					
Current and accrued liabilities					
Accounts payable	$ 23,729— 15.3%	4.0%	$ 22,219— 14.8%	3.8%	+$ 1,510— 6.8%
Notes payable (within 1 year)	7,017— 4.5%	1.2%	7,143— 4.8%	1.2%	−$ 126— 1.8%
Accrued expenses and other liabilities	6,368— 4.1%	1.1%	6,446— 4.3%	1.1%	−$ 78— 1.2%
Total current and accrued liabilities	$ 37,114— 23.9%	6.3%	$ 35,808— 23.8%	6.1%	+$ 1,306— 3.6%
Long-term liabilities					
Notes payable (later than 1 year)	24,248— 15.6%	4.0%	23,499— 15.6%	4.1%	+$ 749— 3.2%
Total liabilities	$ 61,362— 39.5%	10.3%	$ 59,307— 39.5%	10.2%	+$ 2,055— 3.5%
Net Worth	93,769— 60.5%	15.5%	91,023— 60.5%	15.7%	+$ 2,746— 3.0%
Total liabilities and net worth*	$155,131—100.0%	25.8%	$150,330—100.0%	26.0%	+$ 4,801— 3.2%
Net working capital	$ 93,479	15.6%	$ 90,816	15.7%	+$ 2,663— 2.9%
Sales	$600,493	100.0%	$578,189	100.0%	+$22,304— 3.9%
Purchases	$418,880	69.8%	$399,239	69.0%	+$19,641— 4.9%
Net profit (before taxes)	$ 18,284	3.0%	$ 21,218	3.7%	−$ 2,934—13.8%
Financial Ratios					
Current assets to current liabilities	3.5 times		3.5 times		
Net sales to net worth	6.4 times		6.4 times		
Net profit (before taxes) on net worth	19.5%		23.3%		
Total debt to net worth	65.4%		65.2%		

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

SALES VOLUME SUMMARY

One of the major objectives of pharmacy management is to maximize sales. However, it is equally important to control operating and merchandise costs so that favorable net profit and return on investment are realized. Sales volume, operating expenses, and net profit demonstrate some variance among different types of pharmacies; accordingly, careful consideration should be given to the kind of operation being studied when data are used for comparative purposes.

Table 3 illustrates the differences in selected operating statistics relative to sales volume. Generally, as sales volume increases, expenses and gross margin decrease as a percent of total sales. Commonly, as sales increase, proprietor's/manager's salary decreases as a percent of sales but increases in dollars. The trend in employee wages is to increase in dollars and as a percent of total sales as sales increase.

Gross Margin

The gross margin as a percent of total revenue tends to decline as sales volume grows. It is interesting to note that the ratio of prescription sales to total sales also drops, meaning that large-volume operations are more likely to be associated with additional front-end merchandising. Pharmacies with total sales under $400,000 reported prescription revenue as 77.8% of sales and a gross margin of 32.7% on total sales in less than 1,700 square feet. Stores with sales in excess of $1,500,000 recorded prescription activity adding up to 62.2% of total sales and a gross margin of 29.9% in over 5,200 square feet.

Since the high-volume stores collectively averaged a lower share of both prescription revenue and gross margin, a larger proportion of sales was apparently derived from departments producing margins lower than those in the professional area. Another factor that may account for a lower gross margin is that these stores may be located in highly competitive market areas.

Expenses

Since many expenses incurred by a pharmacy are fixed, total expenses appear high as a percent of sales when annual sales are less than $400,000. This scenario could apply to a newly opened pharmacy operation. As sales increase, this fixed portion tends to decrease percentage-wise and may result in a decline in total expenses as a percent of total sales.

Compensation

The total wage package (proprietor's/manager's salary plus employees' wages) generally accounts for over 50% of total expenses and, thus, has a major impact on net profit. Proprietor's/manager's salary advances from over $31,000 in the lowest-volume pharmacies to over $77,000 in stores generating over $1,500,000 in sales. However, the percent decreased from 11.2% of total revenue in low-volume stores to 3.8% in the high-volume stores. Employees' wages demonstrated the opposite trend; they ranged from 5.4% of total sales in the smallest sales volume category to 11.1% in the largest category. This increased expenditure for employees' wages in higher dollar volume stores may be relative to the need for a larger staff to manage a merchandise-oriented pharmacy operating longer business hours. The increased prescription activity in high-volume stores, with the correlating increase in employed pharmacist hours, could be a major contributor to the high employees' wage statistic.

Miscellaneous Operating Costs

Expressed as a percent of sales, this expense category moves in a relatively narrow range and illustrates no definitive trend as sales grow. Since these miscellaneous costs account for approximately one third of total expenses, control of each expense item must be sustained to ensure satisfactory profitability. Included in miscellaneous operating costs are computer expenses that may be substantial in some pharmacies; nevertheless, the beneficial aspects of computers in pharmacies appear to indicate that computers decrease expenses and enhance the productivity of personnel.

Rent

Generally, rent as a percent of sales remains relatively constant as sales increase. However, rental dollars vary according to such variables as pharmacy size and location. In newer pharmacies, rent as a percent of sales may seem high because full sales potential has not been achieved. This subject is discussed more thoroughly on pages 10 and 11.

Net Profit

Net profit as a percent of sales is effectively maximized in stores with total revenue of $500,000 to $600,000. It is interesting to note that the lowest and highest sales volume pharmacies tend to display a smaller net profit as a percent of sales compared with the mid-range stores. Net profit is discussed in more detail on page 12.

Inventory

Typically, the largest investment in the average independent community pharmacy is merchandise inventory and, as such, its control greatly influences profit results. The implementation of an effective inventory control program considers such things as monitoring for pilferage, purchasing of goods in correlation with sales, seasonal variation, and changing usage patterns. To support an upward trend in sales while maintaining the investment at the lowest level consistent with sufficient customer service is the challenge of productive inventory management. One method of evaluating the effectiveness of an inventory control program is the turn-

over rate. The turnover rate is representative of the average number of times inventory is sold and replaced during the year. Table 3 indicates that the turnover rate tends to increase with total sales despite the rise in the inventory dollar investment.

Pharmacy Hours

As illustrated in Table 3, the number of hours a pharmacy is open is directly related to its sales volume. During 1990, the average LILLY DIGEST pharmacy was open 60 hours per week—a number consistent for 3 consecutive years (Table 1). Pharmacies in the lower sales volume category (under $400,000) were open an average of 51 hours per week. Stores with annual sales volume greater than $1,500,000 averaged 73 hours of operation per week. Pharmacy managers should examine the number of hours open relative to the contributed gross margin dollars of each hour. In this review process, local physician office hours and/or competition should also be considered. A decision concerning expansion of business hours should anticipate the impact on profit by referencing both a sales productivity projection and the additional incurred expenses. During 1990, the number of

Table 3 *Summary of sales volume in 1990*

Averages per Pharmacy	Total Sales Under $400,000 (226 Pharmacies)	Total Sales $400,000 to $450,000 (69 Pharmacies)	Total Sales $450,000 to $500,000 (85 Pharmacies)
Sales			
Prescription	$224,159— 77.8%	$335,721— 79.2%	$385,654— 81.0%
Other	59,631— 22.2%	88,205— 20.8%	89,979— 19.0%
Total sales	$283,790—100.0%	$423,926—100.0%	$475,633—100.0%
Cost of goods sold	191,250— 67.3%	297,030— 70.1%	331,992— 69.8%
Gross margin	$ 92,540— 32.7%	$126,896— 29.9%	$143,641— 30.2%
Expenses			
Proprietor's or manager's salary	$ 31,652— 11.2%	$ 38,093— 9.0%	$ 41,336— 8.7%
Employees' wages	15,332— 5.4%	22,579— 5.3%	27,302— 5.8%
Rent	8,476— 3.1%	10,878— 2.6%	11,675— 2.5%
Miscellaneous operating costs	32,353— 12.5%	40,770— 9.6%	53,369— 11.3%
Total expenses	$ 87,813— 32.2%	$112,320— 26.5%	$133,682— 28.3%
Net profit (before taxes)	$ 4,728— 1.7%	$ 14,576— 3.4%	$ 9,960— 2.1%
Proprietor's withdrawals	31,652— 11.2%	38,093— 9.0%	41,336— 8.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 36,379— 12.9%	$ 52,669— 12.4%	$ 51,296— 10.8%
Value of inventory at cost and as a percent of sales			
Prescription	$ 28,907— 13.4%	$ 45,323— 13.5%	$ 41,685— 10.9%
Other	17,150— 28.7%	16,803— 19.0%	25,698— 29.8%
Total value	$ 46,057— 16.9%	$ 62,126— 14.7%	$ 67,383— 14.2%
Annual rate of inventory turnover	4.3 times	4.9 times	5.0 times
Size of area and sales per square foot*	sq. ft. 1,632 $174.42	sq. ft. 1,510 $280.91	sq. ft. 1,894 $256.93
Number of prescriptions dispensed			
New	6,212— 51.0%	8,764— 52.6%	10,680— 52.9%
Renewed	5,953— 49.0%	7,888— 47.4%	9,581— 47.1%
Total prescriptions dispensed	12,165—100.0%	16,652—100.0%	20,261—100.0%
Prescription charge	$19.58	$20.16	$19.62
Number of hours per week			
Pharmacy was open	51 hours	52 hours	55 hours
Worked by proprietor	49 hours	52 hours	52 hours
Worked by employed pharmacist(s)	11 hours	7 hours	11 hours
Percent of total prescriptions covered by:			
Medicaid	20.3%	15.6%	17.1%
Other third party	17.6%	21.0%	19.5%

*Based on averages of pharmacies that reported all data

hours worked by the proprietor was 55 hours per week (Table 1), remaining unchanged from the previous year. In contrast, the number of hours worked by employee pharmacists increased when compared with 1989. A possible reason for this increase may be the expansion of administrative demands placed on the pharmacists by third-party providers.

Third-Party Prescription Activity

Third-party prescription activity accounted for 40.4% of the average LILLY DIGEST pharmacy prescription volume in 1990 (Table 1). This is an increase of 1.3% versus the previous year. Interestingly, stores reporting revenue in excess of $1,500,000 dispensed 43% of their prescriptions for patients who had third-party prescription plan coverage (Table 3). In these stores, 28% of the prescriptions were covered by third-party plans other than Medicaid.

Total Sales $500,000 to $600,000 (177 Pharmacies)	Total Sales $600,000 to $750,000 (238 Pharmacies)	Total Sales $750,000 to $1,000,000 (284 Pharmacies)	Total Sales $1,000,000 to $1,500,000 (297 Pharmacies)	Total Sales Over $1,500,000 (208 Pharmacies)
$437,083— 78.9%	$511,555— 76.5%	$648,558— 74.9%	$ 826,525— 68.9%	$1,313,717— 62.2%
116,308— 21.1%	156,018— 23.5%	213,610— 25.1%	366,963— 31.1%	762,174— 37.8%
$553,391—100.0%	$667,573—100.0%	$862,168—100.0%	$1,193,487—100.0%	$2,075,891—100.0%
382,947— 69.2%	463,286— 69.4%	600,355— 69.6%	838,536— 70.3%	1,457,449— 70.1%
$170,444— 30.8%	$204,287— 30.6%	$261,812— 30.4%	$ 354,951— 29.7%	$ 618,442— 29.9%
$ 43,043— 7.8%	$ 46,446— 7.0%	$ 54,816— 6.4%	$ 61,661— 5.2%	$ 77,958— 3.8%
38,708— 7.0%	48,859— 7.3%	74,046— 8.6%	113,406— 9.6%	229,550— 11.1%
12,776— 2.3%	15,530— 2.3%	21,197— 2.5%	27,466— 2.3%	45,248— 2.2%
54,131— 9.8%	69,970— 10.5%	103,530— 12.1%	119,238— 9.9%	205,219— 9.9%
$148,658— 26.9%	$180,805— 27.1%	$253,589— 29.6%	$ 321,770— 27.0%	$ 557,975— 27.0%
$ 21,787— 3.9%	$ 23,483— 3.5%	$ 38,203— 3.2%	$ 33,181— 2.7%	$ 60,467— 2.8%
43,043— 7.8%	46,446— 7.0%	54,816— 6.4%	61,661— 5.2%	77,958— 3.8%
$ 64,830— 11.7%	$ 69,929— 10.5%	$ 87,658— 10.0%	$ 94,843— 7.9%	$ 138,425— 6.6%
$ 48,775— 11.2%	$ 57,668— 11.7%	$ 65,419— 10.2%	$ 79,581— 9.8%	$ 116,878— 9.0%
27,655— 21.6%	34,039— 25.8%	47,209— 22.3%	78,341— 20.8%	135,151— 17.7%
$ 76,429— 13.8%	$ 91,707— 13.8%	$112,627— 13.1%	$ 157,922— 13.3%	$ 252,029— 12.3%
5.1 times	5.3 times	5.5 times	5.6 times	5.8 times
sq. ft. 2,397 $238.31	sq. ft. 2,364 $294.61	sq. ft. 2,675 $335.68	sq. ft. 3,820 $342.74	sq. ft. 5,204 $411.85
10,838— 50.7%	12,677— 51.9%	16,645— 52.7%	20,883— 52.6%	30,255— 50.1%
10,625— 49.3%	11,765— 48.1%	14,973— 47.3%	18,918— 47.4%	30,077— 49.9%
21,463—100.0%	24,442—100.0%	31,618—100.0%	39,801—100.0%	60,332—100.0%
$21.01	$22.27	$21.36	$21.26	$22.89
55 hours	55 hours	60 hours	66 hours	73 hours
49 hours	53 hours	49 hours	60 hours	69 hours
15 hours	20 hours	30 hours	38 hours	64 hours
19.4%	18.6%	17.6%	17.5%	14.5%
17.8%	22.4%	23.7%	23.7%	28.5%

PRESCRIPTION ACTIVITY

Prescription department sales have steadily expanded over the past 2 decades and into the third. The prescription revenue has increased from 72.1% of total sales in 1989 to 73.1% in 1990. This trend suggests that economic health of the average independent community pharmacy may be related to maintaining a strong prescription department.

Table 4 displays operating statistics according to daily prescription activity. Generally, when the number of prescriptions dispensed daily increases, total sales volume also increases. As the prescription sales portion of total revenue increases, gross margin tends to decrease as a percent of total store sales. Employee wages as a percent of total revenue increase as sales volume advances, but the proprietor/manager salary decreases. Overall, the total wage package (proprietor's salary and employees' wages) ranges from 14.1% to 15.9% of total sales.

As daily prescription activity increases, pharmacist hours worked per week increase, with most managers adding a full-time pharmacist (40 pharmacist hours per week) when prescription activity exceeds 150 prescriptions dispensed. Prescription inventory decreases as a percent of total prescription sales. As prescription activity grows, the inventory turnover rate demonstrates steady improvement—from 4.4 times per year when prescription volume is under 25 per day to 6.6 times per year in stores

Table 4 *Summary by number of prescriptions dispensed daily in 1990*

Averages per Pharmacy	Under 25 Prescriptions Daily (54 Pharmacies)	25 to 35 Prescriptions Daily (62 Pharmacies)	35 to 50 Prescriptions Daily (143 Pharmacies)	50 to 60 Prescriptions Daily (139 Pharmacies)
Sales				
Prescription	$206,632— 52.0%	$221,802— 62.2%	$292,493— 71.0%	$358,990— 73.6%
Other	190,843— 48.0%	134,771— 37.8%	119,554— 29.0%	129,083— 26.4%
Total sales	$397,475—100.0%	$356,573—100.0%	$412,047—100.0%	$488,073—100.0%
Cost of goods sold	272,518— 68.6%	247,231— 69.3%	283,498— 68.8%	336,741— 69.0%
Gross margin	$124,957— 31.4%	$109,342— 30.7%	$128,549— 31.2%	$151,332— 31.0%
Expenses				
Proprietor's or manager's salary	$ 30,071— 7.6%	$ 35,200— 9.9%	$ 35,852— 8.7%	$ 41,185— 8.4%
Employees' wages	27,524— 6.9%	20,549— 5.8%	29,870— 7.2%	32,660— 6.7%
Rent	12,282— 3.1%	11,127— 3.1%	11,866— 2.9%	12,757— 2.6%
Miscellaneous operating costs	43,935— 11.0%	33,617— 9.4%	64,284— 15.6%	57,958— 11.3%
Total expenses	$113,812— 28.6%	$100,493— 28.2%	$141,872— 34.4%	$141,560— 29.0%
Net profit (before taxes)	$ 11,145— 2.8%	$ 8,849— 2.5%	$ 13,323— 3.2%	$ 9,772— 2.0%
Proprietor's withdrawals	30,071— 7.6%	35,200— 9.9%	35,852— 8.7%	41,185— 8.4%
Total income of self-employed proprietor (before taxes on income and profits)	$ 41,216— 10.4%	$ 44,049— 12.4%	$ 49,175— 11.9%	$ 50,957— 10.4%
Value of inventory at cost and as a percent of sales				
Prescription	$ 38,796— 18.8%	$ 29,840— 13.5%	$ 39,440— 13.5%	$ 39,140— 10.9%
Other	24,006— 12.6%	28,458— 21.1%	28,286— 23.7%	29,789— 23.1%
Total value	$ 62,802— 15.8%	$ 58,298— 16.3%	$ 67,726— 16.4%	$ 68,929— 14.1%
Annual rate of turnover of inventory	4.4 times	4.3 times	4.3 times	4.9 times
Size of area and sales per square foot*	sq. ft. 1,862 $226.04	sq. ft. 1,750 $217.85	sq. ft. 1,960 $229.54	sq. ft. 2,383 $215.67
Number of prescriptions dispensed				
New	2,653— 49.8%	5,026— 52.3%	7,010— 51.4%	9,058— 52.6%
Renewed	2,669— 50.2%	4,576— 47.7%	6,628— 48.6%	8,153— 47.4%
Total prescriptions dispensed	5,322—100.0%	9,602—100.0%	13,638—100.0%	17,211—100.0%
Prescription charge	$38.83	$23.10	$21.45	$20.86
Number of hours per week				
Pharmacy was open	52 hours	50 hours	54 hours	56 hours
Worked by proprietor	47 hours	53 hours	51 hours	54 hours
Worked by employed pharmacist(s)	16 hours	8 hours	14 hours	11 hours
Percent of total prescriptions covered by:				
Medicaid	16.4%	17.4%	16.6%	16.9%
Other third party	20.7%	19.7%	21.8%	19.7%

*Based on averages of pharmacies that reported all data

averaging over 200 prescriptions per day. It is important to observe that as turnover advances, usually sales per square foot also increases.

Table 4 indicates that the share of new prescriptions dispensed range from 47.2% to 53.1% of all prescriptions. It is interesting to note that stores with prescription activity under 25 per day and stores that fill over 200 prescriptions daily have the lowest percents of new prescriptions.

Even though the prescription workload may not warrant it, most state laws require that a registered pharmacist be present whenever the prescription department is open for business. Therefore, the number of prescriptions dispensed per available pharmacist hour may be low in pharmacies with limited prescription volume. With growth in sales and prescription activity, managers may choose to commit more time to nonprescription tasks, which will result in the need for additional professional staff "behind the counter." In the highest daily prescription category, pharmacists filled approximately 25 prescriptions per hour open. In addition to having more prescriptions to process, this level of productivity may also be associated with the use of pharmacy technicians and automated equipment.

Table 4 illustrates that as the number of prescriptions dispensed daily increases, the percent of third-party prescriptions generally increases. Pharmacy operations that dispense over 100 prescriptions daily report that they fill over 40% of their prescriptions for third-party plans (including Medicaid).

60 to 75 Prescriptions Daily (211 Pharmacies)	75 to 100 Prescriptions Daily (315 Pharmacies)	100 to 125 Prescriptions Daily (239 Pharmacies)	125 to 150 Prescriptions Daily (135 Pharmacies)	150 to 200 Prescriptions Daily (168 Pharmacies)	Over 200 Prescriptions Daily (118 Pharmacies)
$455,454— 72.8%	$575,777— 75.7%	$716,819— 72.6%	$ 859,720— 76.8%	$1,057,781— 72.9%	$1,718,217— 72.6%
169,987— 27.2%	184,766— 24.3%	270,853— 27.4%	259,210— 23.2%	392,667— 27.1%	649,020— 27.4%
$625,441—100.0%	$760,543—100.0%	$987,672—100.0%	$1,118,930—100.0%	$1,450,448—100.0%	$2,367,237—100.0%
432,350— 69.1%	527,917— 69.4%	692,480— 70.1%	782,851— 70.0%	1,030,442— 71.0%	1,670,169— 70.6%
$193,091— 30.9%	$232,626— 30.6%	$295,192— 29.9%	$ 336,079— 30.0%	$ 420,006— 29.0%	$ 697,068— 29.4%
$ 45,496— 7.3%	$ 49,824— 6.6%	$ 58,342— 5.9%	$ 60,546— 5.4%	$ 63,884— 4.4%	$ 91,048— 3.8%
46,968— 7.5%	61,498— 8.1%	86,814— 8.8%	107,006— 9.6%	141,008— 9.7%	253,479— 10.7%
16,384— 2.6%	18,250— 2.4%	23,493— 2.4%	22,406— 2.0%	29,782— 2.1%	42,184— 1.8%
66,139— 10.6%	76,473— 10.0%	97,322— 9.8%	111,113— 9.9%	139,448— 9.6%	225,395— 9.6%
$174,987— 28.0%	$206,045— 27.1%	$265,971— 26.9%	$ 301,071— 26.9%	$ 374,122— 25.8%	$ 612,106— 25.9%
$ 18,104— 2.9%	$ 26,581— 3.4%	$ 29,221— 3.0%	$ 35,008— 3.1%	$ 45,884— 3.2%	$ 84,962— 3.6%
45,496— 7.3%	49,824— 6.6%	58,342— 5.9%	60,546— 5.4%	63,884— 4.4%	91,048— 3.8%
$ 63,600— 10.2%	$ 76,405— 10.0%	$ 87,563— 8.9%	$ 95,554— 8.5%	$ 109,768— 7.6%	$ 176,010— 7.4%
$ 49,911— 11.0%	$ 58,991— 10.2%	$ 73,121— 10.2%	$ 79,856— 9.3%	$ 94,167— 8.9%	$ 146,223— 8.5%
44,381— 26.1%	45,293— 24.5%	54,575— 20.1%	60,517— 23.3%	68,681— 17.5%	110,831— 17.1%
$ 94,292— 15.1%	$104,284— 13.7%	$127,696— 12.9%	$ 140,373— 12.5%	$ 162,848— 11.2%	$ 257,054— 10.9%
4.7 times	5.2 times	5.5 times	5.7 times	6.4 times	6.6 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
2,354 $281.71	2,873 $286.59	3,186 $333.79	3,231 $365.23	3,381 $474.12	4,329 $620.49
10,723— 50.4%	14,074— 51.3%	18,382— 52.6%	22,321— 52.5%	28,362— 53.1%	42,639— 47.2%
10,545— 49.6%	13,338— 48.7%	16,596— 47.4%	20,200— 47.5%	25,020— 46.9%	47,743— 52.8%
21,268—100.0%	27,412—100.0%	34,978—100.0%	42,521—100.0%	53,382—100.0%	90,382—100.0%
$21.42	$21.00	$20.49	$20.22	$19.82	$19.01
56 hours	58 hours	60 hours	63 hours	67 hours	70 hours
51 hours	54 hours	50 hours	59 hours	58 hours	73 hours
18 hours	21 hours	34 hours	35 hours	48 hours	62 hours
17.6%	17.7%	18.7%	19.6%	19.4%	20.0%
21.6%	20.4%	24.8%	22.9%	24.9%	23.8%

RENT

During 1990, the average independent community pharmacy reporting to the LILLY DIGEST saw rental expenses increase by $1,845 or 9.8% but decrease slightly as a percent of total sales (Table 1). The long-term nature of rental agreements probably accounts for the consistency of the rate over time. Rental agreements are usually affected by such factors as sales, square footage, and a flat rate. If an adequate net profit is to be maintained, rent and other expenses should be proportional to sales volume. A fair and equitable rental expenditure should be based on realistic sales and profit forecasts.

Table 5 displays rental expense as a percentage of sales according to sales volume. The distribution of this expense category has not changed significantly from that tabulated the previous year. The majority of pharmacies—61.8% (up from 59.5% for 1989)—paid 2.5% of total sales or less for rent. A total of 1,298, or 81.9% of participants indicated they spent 3.5% or less of total sales on rental expense.

Table 6 illustrates the rental review process from several different perspectives. Pharmacy managers should evaluate the entire table to gain a broad knowledge of the influence of these variables on rental expense. Section A correlates rent with sales volume. Rent as a percent of sales tends to decrease as sales increase. Although larger-volume pharmacies generally pay a larger amount for rent, each square foot of floor area is usually more productive.

Section B correlates rental expense with the location of the pharmacy. Larger operations tend to be located in shopping centers and produce the highest total sales average of locations. Medical office building pharmacies and apothecaries maintain the smallest total sales averages and are of the smallest size, but they rank the highest in sales and in rent per square foot.

Section C shows that as daily prescription activity increases, there is an advance in sales volume and generally a decline in rent as a percent of total sales. Section A supports these data.

Section D demonstrates the influence of store age on rent. Sales volume usually increases with time. As stores age, they may expand in size and pay less rent per square foot. Newer operations tend to have the lowest sales volume and pay the highest rent as a percent of total sales.

Section E summarizes rental expenditures by geographic region. The Pacific States reported the highest rent as a percent of total sales. However, the Middle Atlantic States reported the highest rent per square foot. The East North Central States reported the largest stores. The West North Central States reported the lowest rent per square foot.

Table 5 *Rental percentages by annual sales volume*

	Under $400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	$1,000,000-$1,500,000	Over $1,500,000	Total	Percent of Pharmacies
Number of Pharmacies	226	69	85	177	238	284	297	208	1,584	100.0%
Rent as a Percent of Sales										
Less than 1.5%	45	18	25	46	74	85	102	68	463	29.1%
1.5% to 2.5%	51	27	24	68	91	94	85	78	518	32.7%
2.5% to 3.5%	64	10	16	39	42	46	63	37	317	20.1%
3.5% to 4.5%	29	7	12	14	17	29	26	17	151	9.5%
4.5% to 5.5%	19	4	4	5	6	18	12	6	74	
5.5% to 6.5%	6	—	2	3	4	7	2	1	25	
6.5% to 7.5%	2	1	—	—	—	5	2	1	11	
7.5% to 8.5%	3	—	1	2	2	—	3	—	11	
8.5% to 9.5%	7	1	1	—	1	—	2	—	12	8.6%
9.5% to 10.5%	—	—	—	—	—	—	—	—	—	
10.5% to 11.5%	—	—	—	—	—	—	—	—	—	
11.5% to 12.5%	—	1	—	—	1	—	—	—	2	

Table 6 *Rent correlated with various factors*

	Average Sales	Size of Pharmacy (Sq. Ft.)*	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
A Annual sales						
Under $400,000	$ 283,790	1,632	$174.42	$ 8,476	$ 5.19	3.0%
$400,000 to $450,000	423,926	1,510	280.91	10,878	7.20	2.6%
$450,000 to $500,000	475,633	1,894	256.93	11,675	6.16	2.5%
$500,000 to $600,000	553,391	2,397	238.31	10,623	4.43	1.9%
$600,000 to $750,000	667,573	2,364	294.61	15,530	6.57	2.3%
$750,000 to $1,000,000	862,167	2,675	335.68	21,197	7.92	2.5%
$1,000,000 to $1,500,000	1,193,487	3,820	342.74	27,466	7.19	2.3%
Over $1,500,000	2,075,891	5,204	411.85	45,248	8.70	2.2%
B Location						
Rural						
Apothecary	$ 675,599	1,505	$459.82	$12,472	$ 8.29	1.9%
Shopping center	1,145,108	4,594	249.25	31,670	6.89	2.8%
Medical office building	790,397	1,391	582.33	20,495	14.73	2.6%
Traditional	878,347	3,109	289.10	16,762	5.39	1.9%
Metropolitan						
Apothecary	$ 801,830	1,293	$660.81	$16,500	$12.76	2.1%
Shopping center	1,276,788	4,914	266.85	39,813	8.10	3.1%
Medical office building	709,408	1,174	740.90	22,365	19.05	3.2%
Traditional	739,997	2,862	393.07	24,631	8.61	3.3%
C Number of prescriptions dispensed daily						
Under 25	$ 397,475	1,862	$226.04	$12,282	$ 6.60	3.1%
25 to 35	356,573	1,750	217.85	11,127	6.36	3.1%
35 to 50	412,057	1,960	229.54	11,866	6.05	2.9%
50 to 60	488,073	2,383	215.67	12,757	5.35	2.6%
60 to 75	625,441	2,354	281.71	16,384	6.96	2.6%
75 to 100	760,543	2,873	286.59	18,250	6.35	2.4%
100 to 125	987,672	3,186	333.79	23,493	7.37	2.4%
125 to 150	1,118,930	3,231	365.23	22,406	6.93	2.0%
150 to 200	1,450,448	3,381	474.12	29,782	8.81	2.1%
Over 200	2,367,237	4,329	620.49	42,184	9.75	1.8%
D Number of years pharmacy has been in operation						
Less than 2 years	$ 799,528	2,212	$361.38	$20,318	$ 9.18	2.5%
2 to 5 years	765,458	2,511	304.86	19,382	7.72	2.5%
5 to 10 years	809,972	2,609	310.42	19,329	7.41	2.4%
Over 10 years	1,003,353	3,025	331.63	21,491	7.10	2.1%
E Geographic region						
New England States	$1,215,612	2,764	$442.09	$25,437	$ 9.20	2.1%
Middle Atlantic States	1,103,439	2,443	462.30	25,603	10.48	2.3%
East North Central States	1,059,504	3,301	325.41	22,849	6.92	2.2%
West North Central States	828,216	2,930	278.49	17,883	6.10	2.2%
South Atlantic States	872,092	2,683	319.79	19,066	7.11	2.2%
East South Central States	789,575	2,488	317.32	14,988	6.02	1.9%
West South Central States	726,162	2,539	277.52	15,640	6.16	2.2%
Mountain States	728,265	2,922	246.45	17,507	5.99	2.4%
Pacific States	918,487	2,907	318.17	25,974	8.93	2.8%
LILLY DIGEST average	918,318	2,838	323.22	20,643	7.27	2.3%

*Based on averages of pharmacies that reported all data

NET PROFIT

When a pharmacy continually shows a loss, it is frequently necessary to borrow the capital required to maintain normal operations. The interest expenses incurred in such loans further lessen net profits. If too many losses are sustained, borrowing may become difficult; eventually, lenders will refuse loans to these businesses. Without the required capital, either from lenders' or owners' investment, such businesses will eventually fail, and their services will be lost to the community.

Table 7 indicates that, as in 1989, 15% of all pharmacies reporting 1990 data to the LILLY DIGEST operated at a loss. In addition, 22% realized a net profit of less than 2%, consistent with the results reported the previous year. At the other end of the profit range, 14% (in contrast to 15% in 1989) indicated a net profit of 10% or greater before taxes.

Table 7 *Net profit according to sales volume*

	Under $400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	$1,000,000-$1,500,000	Over $1,500,000	1990	1989
Number of Pharmacies	226	69	85	177	238	284	297	208	1,584	1,695
Net Profit as a Percent of Sales										
Operating at a loss	31%	14%	16%	12%	13%	15%	13%	8%	15%	15%
Less than 2%	17%	20%	23%	17%	18%	20%	27%	30%	22%	22%
2% to 5%	16%	37%	28%	27%	28%	27%	29%	35%	27%	26%
5% to 7.5%	8%	5%	15%	16%	15%	17%	13%	10%	13%	14%
7.5% to 10%	10%	10%	5%	13%	11%	10%	6%	8%	9%	8%
10% and over	18%	14%	13%	15%	15%	11%	12%	9%	14%	15%

Turnover Comparison

Table 8 presents selected operating statistics from 2 groups of pharmacies—those with a high rate of inventory turnover and those with a low turnover rate. These figures show that by controlling inventory investment and maintaining a high turnover rate, pharmacy proprietors can improve their total income as a percent of total sales. On average, pharmacies in the high turnover group had lower inventories as a percent of sales; however, the cost of goods sold was higher, resulting in a gross margin lower than that in the low turnover group. The lower gross margin may be compensated for by the lower costs associated with carrying a smaller inventory. Because of this expense control, pharmacies with the high turnover rate produced a higher total income as a percent of total revenue.

Table 8 *Turnover comparison (percent of sales)*

	High Turnover (248 Pharmacies)	Low Turnover (360 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	70.8%	68.6%
Gross margin	29.2%	31.4%
Employees' wages	8.1%	9.8%
Rent and miscellaneous expenses	10.8%	13.5%
Total expenses (less proprietor's salary)	18.9%	23.3%
Total income (proprietor's salary plus net profit)	10.2%	8.2%
Total inventory	6.3%	19.7%
Inventory turnover	11.1 times	3.5 times

Break-Even Point

The calculated break-even point for the 1,575 pharmacies reporting to the LILLY DIGEST was reached in 9.9 months, when 86.5% of total sales had been recorded, up slightly from 9.8 months in 1989. At the break-even point, all fixed costs of operation for the year are covered as are the variable costs up to that time. All pharmacy costs are considered fixed except employees' wages and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the variable costs incurred thereafter. The remainder is net profit. Below, break-even points for selected years are shown in terms of both time and sales:

Break-Even Point

	Months	Percent of Sales
1990	9.9	86.5%
1989	9.8	81.6%
1988	9.9	82.5%
1987	9.6	80.0%
1986	10.2	85.0%

THE HEART OF THE LILLY DIGEST

This section contains 30 categories of
operating averages arranged according to both annual sales volume
and daily prescription activity.
A generally accepted accounting format is used to display the operating data
so that comparisons can be made with any pharmacy's figures.
The worksheet on pages 37-38 may be useful for this purpose.

Sales Under $400,000

TABLE A

Averages per Pharmacy	Total Sales Under $400,000		Under 25 Prescriptions Daily (37 Pharmacies)		25 to 35 Prescriptions Daily (51 Pharmacies)	
Sales						
Prescription	$134,127	67.3%	$207,698	79.7%		
Other	65,314	32.7%	52,877	20.3%		
Total sales	$199,441	100.0%	$260,575	100.0%		
Cost of goods sold	133,577	67.0%	174,398	66.9%		
Gross margin	$ 65,864	33.0%	$ 86,177	33.1%		
Expenses						
Proprietor's or manager's salary	$ 20,728	10.4%	$ 34,458	13.2%		
Employees' wages	11,612	5.8%	10,825	4.2%		
Rent	7,242	3.6%	8,527	3.3%		
Utilities	3,408	1.7%	3,232	1.2%		
Accounting, legal, and other professional fees	737	0.4%	1,350	0.5%		
Taxes (except on buildings, income, and profit) and licenses	2,135	1.1%	2,963	1.1%		
Insurance (except on buildings)	2,551	1.3%	3,195	1.2%		
Interest paid	2,236	1.1%	1,574	0.6%		
Computer	626	0.3%	966	0.4%		
Depreciation (except on buildings)	2,673	1.3%	1,701	0.7%		
Miscellaneous	9,226	4.6%	10,465	4.0%		
11.8%				9.7%		
Total expenses	$ 63,174	31.7%	$ 79,256	30.4%		
Net profit (before taxes)	$ 2,690	1.3%	$ 6,921	2.7%		
Add proprietor's withdrawals	20,728	10.4%	34,458	13.2%		
Total income of self-employed proprietor (before taxes on income and profits)	$ 23,418	11.7%	$ 41,379	15.9%		
Value of inventory at cost and as a percent of sales						
Prescription	$ 22,986	17.1%	$ 24,040	11.6%		
Other	22,394	34.3%	16,071	30.4%		
Total value	$ 45,380	22.8%	$ 40,111	15.4%		
Annual rate of turnover of inventory	3.1 times		4.4 times			
Size of area and sales per square foot*	sq. ft.		sq. ft.			
Prescription	357	$372.87	326	$637.18		
Other	1,348	48.40	1,190	45.03		
Total size	1,705	$116.40	1,516	$172.50		
Number of prescriptions dispensed						
New	3,006	49.9%	5,045	52.5%		
Renewed	3,014	50.1%	4,557	47.5%		
Total prescriptions dispensed	6,020	100.0%	9,602	100.0%		
Prescription charge	$22.28		$21.63			
Number of hours per week						
Pharmacy was open	51 hours		49 hours			
Worked by proprietor	46 hours		50 hours			
Worked by employed pharmacist(s)	13 hours		7 hours			
Percent of total prescriptions covered by:						
Medicaid	17.1%		16.4%			
Other third party	14.5%		18.9%			

*Based on averages of pharmacies that reported all data

35 to 50 Prescriptions Daily (81 Pharmacies)	
$262,037—	81.4%
59,918—	18.6%
$321,955—	100.0%
218,568—	67.9%
$103,387—	32.1%
$ 32,981—	10.2%
18,647—	5.8%
8,872—	2.8%
4,113—	1.3%
1,973—	0.6%
4,334—	1.3%
3,340—	1.0%
2,512—	0.8%
1,850—	0.6%
3,553—	1.1%
14,560—	4.5%
11.2%	
$ 96,735—	30.0%
$ 6,652—	2.1%
32,981—	10.2%
$ 39,633—	12.3%
$ 33,229—	12.7%
17,180—	28.7%
$ 50,409—	15.7%
4.4 times	
sq. ft.	
337	$790.81
1,345	44.24
1,682	$193.62
6,863—	50.9%
6,629—	49.1%
13,492—	100.0%
$19.42	
52 hours	
51 hours	
11 hours	
18.9%	
22.3%	

Sales
$400,000-
$500,000

TABLE B

Averages per Pharmacy	Total Sales $400,000-$450,000 (69 Pharmacies)	
Sales		
Prescription	$335,721	79.2%
Other	88,205	20.8%
Total sales	$423,926	100.0%
Cost of goods sold	297,030	70.1%
Gross margin	$126,896	29.9%
Expenses		
Proprietor's or manager's salary	$ 38,093	9.0%
Employees' wages	22,579	5.3%
Rent	10,878	2.6%
Utilities	4,701	1.1%
Accounting, legal, and other professional fees	2,118	0.5%
Taxes (except on buildings, income, and profit) and licenses	4,353	1.0%
Insurance (except on buildings)	4,996	1.2%
Interest paid	2,471	0.6%
Computer	2,166	0.5%
Depreciation (except on buildings)	3,672	0.9%
Miscellaneous	16,293	3.8%
Total expenses	$112,320	26.5%
		9.6%
Net profit (before taxes)	$ 14,576	3.4%
Add proprietor's withdrawals	38,093	9.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 52,669	12.4%
Value of inventory at cost and as a percent of sales		
Prescription	$ 45,323	13.5%
Other	16,803	19.0%
Total value	$ 62,126	14.7%
Annual rate of turnover of inventory	4.9 times	
Size of area and sales per square foot*	sq. ft.	
Prescription	350	$967.69
Other	1,160	73.89
Total size	1,510	$280.91
Number of prescriptions dispensed		
New	8,764	52.6%
Renewed	7,888	47.4%
Total prescriptions dispensed	16,652	100.0%
Prescription charge	$20.16	
Number of hours per week		
Pharmacy was open	52 hours	
Worked by proprietor	52 hours	
Worked by employed pharmacist(s)	7 hours	
Percent of total prescriptions covered by:		
Medicaid	15.6%	
Other third party	21.0%	

*Based on averages of pharmacies that reported all data

Total Sales

$450,000-$500,000

Under 60 Prescriptions Daily (46 Pharmacies)		Over 60 Prescriptions Daily (39 Pharmacies)	
$350,490—	74.3%	$420,818—	87.7%
121,096—	25.7%	58,862—	12.3%
$471,586—	100.0%	$479,680—	100.0%
327,484—	69.4%	336,500—	70.2%
$144,102—	30.6%	$143,180—	29.8%
$ 40,172—	8.5%	$ 42,499—	8.9%
28,179—	6.0%	26,425—	5.5%
13,815—	2.9%	9,534—	2.0%
5,370—	1.1%	4,504—	0.9%
2,920—	0.6%	1,584—	0.3%
7,438—	1.6%	6,163—	1.3%
5,624—	1.2%	3,622—	0.8%
4,092—	0.9%	3,325—	0.7%
2,123—	0.5%	2,601—	0.5%
3,966—	0.8%	3,927—	0.8%
28,527—	6.0%	20,952—	4.4%
	12.7%		9.7%
$142,226—	30.2%	$125,136—	26.1%
$ 1,876—	0.4%	$ 18,044—	3.7%
40,172—	8.5%	42,499—	8.9%
$ 42,048—	8.9%	$ 60,543—	12.6%
$ 38,527—	11.0%	$ 44,842—	10.7%
31,847—	26.3%	19,549—	33.2%
$ 70,374—	14.9%	$ 64,391—	13.4%
4.7 times		5.2 times	
sq. ft.		sq. ft.	
529	$664.47	466	$902.46
1,636	73.54	1,157	51.44
2,165	$218.07	1,623	$255.78
8,452—	53.7%	12,907—	52.1%
7,301—	46.3%	11,860—	47.9%
15,753—	100.0%	24,767—	100.0%
$22.25		$16.99	
56 hours		54 hours	
56 hours		48 hours	
10 hours		11 hours	
14.7%		19.5%	
23.0%		15.9%	

Sales
$500,000-
$750,000

TABLE C

Averages per Pharmacy	Total Sales $500,000-$600,000 Under 60 Prescriptions Daily (45 Pharmacies)		Total Sales $500,000-$600,000 60 to 75 Prescriptions Daily (72 Pharmacies)	
Sales				
Prescription	$362,430—	66.5%	$458,236—	83.2%
Other	182,548—	33.5%	92,796—	16.8%
Total sales	$544,978—	100.0%	$551,032—	100.0%
Cost of goods sold	376,116—	69.0%	381,455—	69.2%
Gross margin	$168,862—	31.0%	$169,577—	30.8%
Expenses				
Proprietor's or manager's salary	$ 41,633—	7.6%	$ 43,954—	8.0%
Employees' wages	43,767—	8.0%	35,551—	6.5%
Rent	15,113—	2.8%	11,834—	2.1%
Utilities	6,001—	1.1%	5,375—	1.0%
Accounting, legal, and other professional fees	2,252—	0.4%	2,712—	0.5%
Taxes (except on buildings, income, and profit) and licenses	7,621—	1.4%	7,191—	1.3%
Insurance (except on buildings)	5,426—	1.0%	5,755—	1.0%
Interest paid	4,053—	0.7%	3,970—	0.7%
Computer	2,079—	0.4%	2,332—	0.4%
Depreciation (except on buildings)	5,260—	1.0%	4,516—	0.8%
Miscellaneous	23,543—	4.3%	24,883—	4.5%
		10.3%		10.2%
Total expenses	$156,748—	28.8%	$148,073—	26.9%
Net profit (before taxes)	$ 12,114—	2.3%	$ 21,504—	3.9%
Add proprietor's withdrawals	41,633—	7.6%	43,954—	8.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 53,747—	9.9%	$ 65,458—	11.9%
Value of inventory at cost and as a percent of sales				
Prescription	$ 41,911—	11.6%	$ 46,527—	10.2%
Other	49,182—	26.9%	28,006—	30.2%
Total value	$ 91,093—	16.7%	$ 74,533—	13.5%
Annual rate of turnover of inventory	4.2 times		5.2 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	330	$1,107.63	418	$1,100.67
Other	2,614	68.25	1,511	60.31
Total size	2,944	$ 184.81	1,929	$ 285.99
Number of prescriptions dispensed				
New	7,872—	52.4%	10,636—	49.5%
Renewed	7,162—	47.6%	10,859—	50.5%
Total prescriptions dispensed	15,034—	100.0%	21,495—	100.0%
Prescription charge	$24.11		$21.32	
Number of hours per week				
Pharmacy was open	58 hours		54 hours	
Worked by proprietor	53 hours		49 hours	
Worked by employed pharmacist(s)	17 hours		12 hours	
Percent of total prescriptions covered by:				
Medicaid	21.1%		16.2%	
Other third party	16.7%		21.3%	

*Based on averages of pharmacies that reported all data

Total Sales $500,000-$600,000	Total Sales $600,000-$750,000			
Over 75 Prescriptions Daily (60 Pharmacies)	Under 60 Prescriptions Daily (30 Pharmacies)	60 to 75 Prescriptions Daily (48 Pharmacies)	75 to 100 Prescriptions Daily (101 Pharmacies)	Over 100 Prescriptions Daily (59 Pharmacies)
$490,584— 87.0%	$369,781— 56.3%	$481,198— 72.8%	$598,906— 90.3%	$596,333— 86.5%
73,580— 13.0%	286,924— 43.7%	179,744— 27.2%	64,449— 9.7%	92,956— 13.5%
$564,164—100.0%	$656,705—100.0%	$660,942—100.0%	$663,355—100.0%	$689,289—100.0%
391,269— 69.4%	449,312— 68.4%	458,971— 69.4%	464,691— 70.1%	480,170— 69.7%
$172,895— 30.6%	$207,393— 31.6%	$201,971— 30.6%	$198,664— 29.1%	$209,119— 30.3%
$ 43,543— 7.7%	$ 45,513— 6.9%	$ 43,299— 6.6%	$ 47,925— 7.2%	$ 49,045— 7.1%
36,805— 6.5%	51,782— 7.9%	49,762— 7.5%	44,741— 6.7%	49,149— 7.1%
11,381— 2.0%	16,861— 2.6%	18,419— 2.8%	13,537— 2.0%	13,303— 1.9%
5,355— 0.9%	6,824— 1.0%	7,024— 1.1%	5,840— 0.9%	5,985— 0.9%
2,438— 0.4%	3,473— 0.5%	2,532— 0.4%	2,739— 0.4%	2,824— 0.4%
8,772— 1.6%	9,157— 1.4%	8,207— 1.2%	8,364— 1.3%	8,421— 1.2%
5,058— 0.9%	7,971— 1.2%	7,910— 1.2%	6,314— 1.0%	6,339— 0.9%
2,098— 0.4%	4,980— 0.8%	6,811— 1.0%	4,141— 0.6%	4,017— 0.6%
2,266— 0.4%	2,949— 0.4%	2,461— 0.4%	2,417— 0.4%	2,364— 0.3%
3,663— 0.6%	4,327— 0.7%	7,814— 1.2%	6,114— 0.9%	7,274— 1.1%
19,773— 3.5%	36,315— 5.5%	29,759— 4.5%	31,629— 4.8%	26,583— 3.9%
8.7%	11.5%	11.0%	10.3%	9.3%
$141,152— 25.0%	$190,152— 29.0%	$183,998— 27.8%	$173,761— 26.2%	$175,304— 25.4%
$ 31,743— 5.6%	$ 17,241— 2.7%	$ 17,973— 2.7%	$ 24,903— 3.8%	$ 33,815— 4.9%
43,543— 7.7%	45,513— 6.9%	43,299— 6.6%	47,925— 7.2%	49,045— 7.1%
$ 75,286— 13.3%	$ 62,754— 9.6%	$ 61,272— 9.3%	$ 72,828— 11.0%	$ 82,860— 12.0%
$ 57,886— 11.8%	$ 57,984— 15.7%	$ 54,670— 11.4%	$ 58,201— 9.7%	$ 59,817— 10.0%
5,776— 7.8%	38,490— 13.4%	53,940— 30.0%	26,779— 41.6%	16,947— 18.2%
$ 63,662— 11.3%	$ 96,474— 14.7%	$108,610— 16.4%	$ 84,980— 12.8%	$ 76,764— 11.1%
5.9 times	4.7 times	4.3 times	5.7 times	6.5 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
431 $1,149.46	414 $ 874.05	412 $1,166.21	445 $1,368.71	524 $1,131.46
1,887 37.29	2,508 117.19	2,321 78.06	1,534 34.29	1,298 73.71
2,318 $ 244.14	2,922 $224.42	2,733 $242.28	1,979 $ 334.08	1,822 $ 377.67
14,006— 50.3%	6,891— 51.9%	10,719— 50.6%	13,489— 49.4%	19,610— 54.4%
13,855— 49.7%	6,374— 48.1%	10,465— 49.4%	13,806— 50.6%	16,413— 45.6%
27,861—100.0%	13,265—100.0%	21,184—100.0%	27,295—100.0%	36,023—100.0%
$17.61	$27.88	$22.72	$21.94	$16.55
53 hours	54 hours	57 hours	55 hours	55 hours
46 hours	54 hours	53 hours	53 hours	50 hours
16 hours	21 hours	18 hours	16 hours	24 hours
20.9%	15.2%	17.1%	17.1%	24.8%
15.5%	24.1%	23.0%	20.7%	21.6%

Sales
$750,000-
$1,000,000

TABLE D

Averages per Pharmacy	Total Sales $750,000-$1,000,000 Under 75 Prescriptions Daily (37 Pharmacies)			75 to 100 Prescriptions Daily (97 Pharmacies)		
Sales						
Prescription	$ 479,199	58.2%		$613,225	71.2%	
Other	343,624	41.8%		248,072	28.8%	
Total sales	$ 822,823	100.0%		$861,297	100.0%	
Cost of goods sold	561,780	68.3%		599,903	69.7%	
Gross margin	$ 261,043	31.7%		$261,394	30.3%	
Expenses						
Proprietor's or manager's salary	$ 49,142	6.0%		$ 51,639	6.0%	
Employees' wages	85,027	10.3%		74,544	8.7%	
Rent	27,125	3.3%		20,847	2.4%	
Utilities	8,967	1.1%		8,460	1.0%	
Accounting, legal, and other professional fees	4,620	0.6%		4,056	0.5%	
Taxes (except on buildings, income, and profit) and licenses	14,126	1.7%	19.4%	13,247	1.5%	9.9%
Insurance (except on buildings)	10,732	1.3%		8,987	1.0%	
Interest paid	5,154	0.6%		6,182	0.7%	
Computer	2,419	0.3%		2,744	0.3%	
Depreciation (except on buildings)	8,027	1.0%		6,784	0.8%	
Miscellaneous	105,662	12.8%		35,172	4.1%	
Total expenses	$ 321,001	39.0%		$232,662	27.0%	
Net profit (before taxes)	$ -59,958	-7.3%		$ 28,732	3.3%	
Add proprietor's withdrawals	49,142	6.0%		51,639	6.0%	
Total income of self-employed proprietor (before taxes on income and profits)	$ -10,816	-1.3%		$ 80,371	9.3%	
Value of inventory at cost and as a percent of sales						
Prescription	$ 52,567	11.0%		$ 63,264	10.3%	
Other	72,508	21.1%		60,979	24.6%	
Total value	$ 125,075	15.2%		$124,243	14.4%	
Annual rate of turnover of inventory	4.6 times			4.9 times		
Size of area and sales per square foot*	sq. ft.			sq. ft.		
Prescription	350	$1,394.48		598	$1,026.89	
Other	2,698	121.49		2,689	91.80	
Total size	3,048	$ 267.84		3,287	$ 261.98	
Number of prescriptions dispensed						
New	10,068	53.6%		14,189	51.1%	
Renewed	8,730	46.4%		13,566	48.9%	
Total prescriptions dispensed	18,798	100.0%		27,755	100.0%	
Prescription charge	$25.49			$22.09		
Number of hours per week						
Pharmacy was open	64 hours			62 hours		
Worked by proprietor	44 hours			55 hours		
Worked by employed pharmacist(s)	42 hours			25 hours		
Percent of total prescriptions covered by:						
Medicaid	12.6%			13.8%		
Other third party	28.3%			23.9%		

*Based on averages of pharmacies that reported all data

100 to 125 Prescriptions Daily (87 Pharmacies)		Over 125 Prescriptions Daily (63 Pharmacies)	
$705,103—	81.6%	$796,703—	88.4%
158,599—	18.4%	104,143—	11.6%
$863,702—	100.0%	$900,846—	100.0%
605,350—	70.1%	634,387—	70.4%
$258,352—	29.9%	$266,459—	29.6%
$ 63,741—	7.4%	$ 54,740—	6.1%
68,712—	8.0%	67,902—	7.5%
19,545—	2.3%	17,269—	1.9%
8,595—	1.0%	6,907—	0.8%
3,619—	0.4%	3,153—	0.4%
11,453—	1.3%	12,459—	1.4%
9,899—	1.1%	9,481—	1.1%
4,537—	0.5%	4,577—	0.5%
2,830—	0.3%	3,404—	0.4%
7,777—	0.9%	6,485—	0.7%
36,882—	4.3%	36,721—	4.1%
$237,590—	27.5%	$223,098—	24.8%
$ 20,762—	2.4%	$ 43,361—	4.8%
63,741—	7.4%	54,740—	6.1%
$ 84,503—	9.8%	$ 98,101—	10.9%
$ 69,146—	9.8%	$ 76,697—	9.6%
28,853—	18.2%	26,494—	25.4%
$ 97,999—	11.3%	$103,191—	11.5%
6.3 times		6.3 times	
sq. ft.		sq. ft.	
475	$1,500.18	455	$1,750.31
1,847	81.50	1,586	65.92
2,322	$ 371.35	2,041	$ 441.53
18,494—	52.6%	23,830—	53.3%
16,678—	47.4%	20,916—	46.7%
35,172—	100.0%	44,746—	100.0%
$20.05		$17.80	
56 hours		58 hours	
45 hours		53 hours	
29 hours		24 hours	
21.2%		22.7%	
22.8%		19.8%	

9.8%

9.4%

Sales
$1,000,000-
$1,500,000

TABLE E

Averages per Pharmacy	Total Sales $1,000,000-$1,500,000 Under 100 Prescriptions Daily (57 Pharmacies)		Total Sales $1,000,000-$1,500,000 100 to 125 Prescriptions Daily (82 Pharmacies)	
Sales				
Prescription	$ 564,710	49.8%	$ 796,866	66.2%
Other	569,421	50.2%	407,583	33.8%
Total sales	$1,134,131	100.0%	$1,204,449	100.0%
Cost of goods sold	785,106	69.2%	848,673	70.5%
Gross margin	$ 349,025	30.8%	$ 355,776	29.5%
Expenses				
Proprietor's or manager's salary	$ 58,622	5.2%	$ 59,744	5.0%
Employees' wages	115,243	10.2%	114,214	9.5%
Rent	34,057	3.0%	32,142	2.7%
Utilities	11,033	1.0%	12,224	1.0%
Accounting, legal, and other professional fees	4,019	0.4%	4,597	0.4%
Taxes (except on buildings, income, and profit) and licenses	15,993	1.4%	16,673	1.4%
Insurance (except on buildings)	12,196	1.1%	12,349	1.0%
Interest paid	7,429	0.7%	8,521	0.7%
Computer	3,056	0.3%	3,173	0.3%
Depreciation (except on buildings)	10,495	0.9%	8,307	0.7%
Miscellaneous	54,546	4.8%	53,401	4.4%
		10.6%		9.9%
Total expenses	$ 326,689	28.8%	$ 325,345	27.0%
Net profit (before taxes)	$ 22,336	1.9%	$ 30,431	2.5%
Add proprietor's withdrawals	58,622	5.2%	59,744	5.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 80,958	7.1%	$ 90,175	7.5%
Value of inventory at cost and as a percent of sales				
Prescription	$ 58,705	10.4%	$ 84,023	10.5%
Other	127,014	22.3%	88,025	21.6%
Total value	$ 185,719	16.4%	$ 172,048	14.3%
Annual rate of turnover of inventory	4.3 times		5.1 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	609	$ 934.12	462	$1,728.89
Other	4,346	129.96	4,172	95.94
Total size	4,955	$ 228.81	4,634	$ 258.69
Number of prescriptions dispensed				
New	13,435	54.5%	18,601	52.4%
Renewed	11,238	45.5%	16,870	47.6%
Total prescriptions dispensed	24,673	100.0%	35,471	100.0%
Prescription charge	$22.89		$22.47	
Number of hours per week				
Pharmacy was open	67 hours		67 hours	
Worked by proprietor	67 hours		56 hours	
Worked by employed pharmacist(s)	36 hours		40 hours	
Percent of total prescriptions covered by:				
Medicaid	16.2%		14.0%	
Other third party	22.2%		28.1%	

*Based on averages of pharmacies that reported all data

125 to 150 Prescriptions Daily (59 Pharmacies)		Over 150 Prescriptions Daily (99 Pharmacies)	
$ 912,658	77.1%	$1,031,864	82.4%
271,093	22.9%	219,753	17.6%
$1,183,751	100.0%	$1,251,617	100.0%
831,792	70.3%	888,572	71.0%
$ 351,959	29.7%	$ 363,045	29.0%
$ 66,264	5.6%	$ 62,015	5.0%
109,604	9.3%	114,561	9.2%
22,705	1.9%	20,959	1.7%
9,803	0.8%	9,411	0.8%
4,184	0.4%	5,207	0.4%
16,315	1.4%	16,725	1.3%
11,637	1.0%	13,440	1.1%
6,202	0.5%	6,063	0.5%
3,417	0.3%	4,581	0.4%
14,178	1.2%	8,605	0.7%
53,081	4.5%	56,089	4.5%
10.1%		9.7%	
$ 317,390	26.8%	$ 317,656	25.4%
$ 34,569	2.9%	$ 45,389	3.6%
66,264	5.6%	62,015	5.0%
$ 100,833	8.5%	$ 107,404	8.6%
$ 84,772	9.3%	$ 90,823	8.8%
61,918	22.8%	36,408	16.6%
$ 146,690	12.4%	$ 127,231	10.2%
5.8 times		7.1 times	
sq. ft.		sq. ft.	
542	$1,686.27	581	$1,783.98
2,735	100.39	1,831	119.83
3,277	$ 362.60	2,412	$ 520.87
21,472	50.2%	30,025	53.3%
21,292	49.8%	26,273	46.7%
42,764	100.0%	56,298	100.0%
$21.34		$18.33	
64 hours		64 hours	
59 hours		57 hours	
36 hours		41 hours	
17.2%		22.6%	
21.6%		22.8%	

Sales Over $1,500,000

TABLE F

Total Sales

Over $1,500,000

Averages per Pharmacy	Under 150 Prescriptions Daily (39 Pharmacies)	150 to 200 Prescriptions Daily (64 Pharmacies)	Over 200 Prescriptions Daily (105 Pharmacies)
Sales			
Prescription	$ 952,713— 52.1%	$1,196,289— 62.9%	$1,792,149— 71.7%
Other	876,287— 47.9%	704,117— 37.1%	706,118— 28.3%
Total sales	$1,829,000—100.0%	$1,900,406—100.0%	$2,498,267—100.0%
Cost of goods sold	1,257,369— 68.7%	1,347,988— 70.9%	1,766,991— 70.7%
Gross margin	$ 571,631— 31.3%	$ 552,418— 29.1%	$ 731,276— 29.3%
Expenses			
Proprietor's or manager's salary	$ 69,888— 3.8%	$ 69,723— 3.7%	$ 94,263— 3.8%
Employees' wages	216,917— 11.9%	203,607— 10.7%	268,125— 10.7%
Rent	46,019— 2.5%	44,795— 2.4%	44,931— 1.8%
Utilities	16,152— 0.9%	15,107— 0.8%	17,851— 0.7%
Accounting, legal, and other professional fees	5,755— 0.3%	8,170— 0.4%	9,235— 0.4%
Taxes (except on buildings, income, and profit) and licenses	24,535— 1.3%	26,356— 1.4%	32,148— 1.3%
Insurance (except on buildings)	22,686— 1.2%	20,819— 1.1%	24,752— 1.0%
Interest paid	14,599— 0.8%	13,211— 0.7%	16,009— 0.6%
Computer	5,393— 0.3%	4,580— 0.2%	7,130— 0.3%
Depreciation (except on buildings)	14,792— 0.8%	10,922— 0.6%	18,210— 0.7%
Miscellaneous	87,610— 4.8%	88,299— 4.6%	111,336— 4.5%
Total expenses	$ 524,346— 28.7%	$ 505,589— 26.6%	$ 643,990— 25.8%
Net profit (before taxes)	$ 47,285— 2.6%	$ 46,829— 2.4%	$ 87,286— 3.5%
Add proprietor's withdrawals	69,888— 3.8%	69,723— 3.7%	94,263— 3.8%
Total income of self-employed proprietor (before taxes on income and profits)	$ 117,173— 6.4%	$ 116,552— 6.1%	$ 181,549— 7.3%
Value of inventory at cost and as a percent of sales			
Prescription	$ 90,734— 9.5%	$ 108,048— 9.0%	$ 151,851— 8.5%
Other	158,089— 18.0%	124,711— 17.7%	122,653— 17.4%
Total value	$ 248,823— 13.6%	$ 232,759— 12.2%	$ 274,504— 11.0%
Annual rate of turnover of inventory	5.1 times	5.9 times	6.5 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	464 $2,101.12	506 $2,378.46	744 $2,431.87
Other	5,547 153.14	4,497 156.03	3,855 188.26
Total size	6,011 $ 303.60	5,003 $ 380.58	4,599 $ 551.36
Number of prescriptions dispensed			
New	19,392— 55.2%	29,607— 54.3%	41,767— 45.7%
Renewed	15,724— 44.8%	24,940— 45.7%	49,568— 54.3%
Total prescriptions dispensed	35,116—100.0%	54,547—100.0%	91,335—100.0%
Prescription charge	$27.13	$21.93	$19.62
Number of hours per week			
Pharmacy was open	72 hours	74 hours	72 hours
Worked by proprietor	71 hours	61 hours	74 hours
Worked by employed pharmacist(s)	64 hours	65 hours	64 hours
Percent of total prescriptions covered by:			
Medicaid	10.1%	14.7%	18.6%
Other third party	30.6%	29.3%	25.5%

10.4% 9.8% 9.5%

*Based on averages of pharmacies that reported all data

BALANCE SHEET AND FINANCIAL RATIOS

The primary objective of a business is to earn an adequate return on the funds invested in it. Pharmacy owners/managers should review balance sheet data from the standpoint of a capital investor by relating income to funds invested and evaluating the overall liquidity and profitability of the business. Financial ratios developed from balance sheet information can be used to measure return on investment, ability to meet current obligations (current ratio), solvency of the business (debt/equity ratio), and profitability.

The capability to evaluate and analyze business operations by interpreting accounting records may be one of the keys to successful business management. Ratios calculated from financial information are not inflexible measures of success or failure; however, they can serve as general indicators of performance at given points in time. It may be more beneficial to compare a pharmacy's past financial ratios with its latest ratios and attempt to determine general trends. The financial ratios in Table 9 involve both sales volume and store age.

Liquidity or Short-Term Capitalization

Liquidity measures the pharmacy's ability to meet its current obligations; it reflects the relationship between the store's short-term financial position and the source of funds available to meet its obligations.

$$\text{CURRENT RATIO} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The "current ratio" is determined by dividing the current assets (cash, inventory, and accounts receivable) by the current liabilities (accounts and notes due within 1 year). Creditors like to see a high current ratio because it indicates a wide margin of safety for any claims against the business. However, too high a current ratio may mean that a manager is not using funds in the most productive way because, for example, the inventory may be too high.

Some observers believe that a current ratio of 2:1 is appropriate for many businesses. This value would allow assets, especially inventory, to shrink by 50% and still cover current obligations. The average current ratio for operations in the 1991 LILLY DIGEST is 3.5; newer stores usually had lower ratios than established stores.

Profitability

Profitability measures management's ability to increase the owner's equity.

$$\text{NET PROFIT ON NET SALES} = \frac{\text{Net Profit (before taxes)}}{\text{Annual Sales}}$$

Net profit as a percent of sales is a widely used measure of profitability. Year-to-year comparisons may demonstrate if increased net profits were solely the result of a decreased percentage being paid for cost of goods and expenses.This measure of profitability is most useful in connection with another ratio, return on investment.

$$\text{RETURN ON INVESTMENT} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Net worth is the amount of the owner's equity that would be available if the total assets were liquidated and total liabilities were paid off. To determine the return on investment, the net profit before taxes is divided by the net worth. In recent years, the return-on-investment (or the return-on-equity) calculation was considered to be the broadest measure of overall performance because it evaluates how well funds as supplied by the owner are being utilized. Some individuals feel that a more accurate indicator of return-on-investment would be the return-on-total-investment figure.

Solvency or Long-Term Capitalization

Solvency is used when lenders estimate the borrowing potential of a firm. Solvency refers to the ability of a pharmacy to meet the repayment schedule of long-term obligations.

$$\text{DEBT/EQUITY RATIO} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A store in which the total debt exceeds the owner's equity is vulnerable to sharp changes in the operation. Such changes may be caused by a sudden drop in sales or a rise in expenses. On the other hand, when the debt/equity ratio is low in comparison with those of other operations, the business may not be leveraged to the best advantage. The average debt/equity ratio for operations submitting data to the 1991 LILLY DIGEST was 65.4%, up slightly from the previous year.

$$\textbf{NET SALES TO NET WORTH} = \frac{\text{Net Sales}}{\text{Net Worth}}$$

This ratio examines the productivity of the equity in the generation of total sales. A high ratio may imply that the owner's capitalization is inadequate or that the pharmacy is a highly leveraged operation. When the ratio is low, the operation is not making full use of its funds, and the owner's investment has become stagnant. An average net sales to net worth ratio of 6.4 was noted for operations submitting data in both 1989 and 1990.

$$\textbf{AVERAGE PAYABLE PERIOD} = \frac{\text{Outstanding Accounts Payable} \times 365}{\text{Annual Purchases}}$$

This ratio expresses the number of days outstanding in accounts payable and measures the extent to which a business is operating on the capital of the supplier. A short payable period may mean that a business is not operating on supplier's capital.

Table 9 *Balance sheet and financial ratios by store age as of December 31, 1990*

sales under $400,000

Averages per Pharmacy	Store Age Under 5 Years (56 Pharmacies)	Percent of Sales	Store Age Over 5 Years (107 Pharmacies)	Percent of Sales
Assets				
Current assets				
Cash	$ 15,954	5.2%	$ 10,997	3.8%
Accounts receivable	12,553	4.1%	12,203	4.2%
Inventory	49,680	16.3%	42,781	14.5%
Total current assets	$ 78,187	25.6%	$ 65,981	22.5%
Fixed assets less depreciation	13,472	4.4%	12,139	4.1%
Other assets				
Prepaid expenses, deposits	2,774	0.9%	2,334	0.9%
Total assets*	$ 94,433	30.9%	$ 80,454	27.5%
Liabilities				
Current liabilities				
Accounts payable	$ 13,054	4.3%	$ 9,709	3.3%
Notes payable (within 1 year)	8,981	2.9%	4,120	1.4%
Accrued expenses and other liabilities	3,089	1.0%	2,803	1.0%
Total current and accrued liabilities	$ 25,124	8.2%	$ 16,632	5.7%
Long-term liabilities				
Notes payable (later than 1 year)	15,359	5.0%	11,215	3.8%
Total liabilities	$ 40,483	13.2%	$ 27,847	9.5%
Net Worth	53,950	17.7%	52,607	18.0%
Total liabilities and net worth*	$ 94,433	30.9%	$ 80,454	27.5%
Net working capital	$ 53,063	17.4%	$ 49,349	16.8%
Sales	$305,733	100.0%	$292,928	100.0%
Purchases	$213,235	69.7%	$193,836	66.2%
Net profit (before taxes)	$ 653	0.2%	$ 8,315	2.8%
Financial Ratios				
Current assets to current liabilities	3.1 times		4.0 times	
Net sales to net worth	5.7 times		5.6 times	
Net profit (before taxes) on net worth	1.2%		15.8%	
Total liabilities to net worth	75.0%		60.7%	

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

On the other hand, a long payable period may mean that the pharmacy is not taking suppliers' cash discounts. However, when the lost cash discounts are taken into consideration, it is one of the most expensive sources of funds. LILLY DIGEST stores submitted an average payable period of about 22 days. This is up from 20 days reported the previous year.

In Table 9, balance sheet data from participating pharmacies were categorized both by sales volume and store age. Capitalization figures and financial ratios were divided into 3 categories—total sales under $400,000, sales $400,000 to $600,000, and sales over $600,000. Stores within each category are further characterized by how long they have been in operation. The most important figures for the comparison of categories are those evaluated as percents of sales.

Table 9 shows that after a pharmacy's first 5 years of operation, long-term liabilities decline both in terms of dollars and as a percent of sales because the business may become increasingly able to generate adequate funds to retire debt and increase net worth. The net sales to net worth ratio illustrates this; it declines sharply as pharmacies become more established. Total liabilities to net worth follows a similar pattern. The data also indicate that fixed assets as a percent of sales decrease as a business operation matures. This should come as no surprise because, over time, depreciation diminishes the value of fixed assets. Net working capital advances dollarwise in store operations that are 5 years old or older. Return on investment (net profit on net worth) is usually higher in newly established pharmacy operations because most of the capital is borrowed and the equity is small. As the business becomes more established, financing shifts from debt to equity, and the return on investment drops and generally stabilizes at approximately 20%.

sales $400,000 to $600,000

Store Age Under 5 Years (103 Pharmacies)	Percent of Sales	Store Age Over 5 Years (238 Pharmacies)	Percent of Sales
$ 17,469	3.5%	$ 19,496	3.8%
17,413	3.5%	23,247	4.6%
70,128	13.9%	70,489	13.8%
$105,010	20.9%	$113,232	22.2%
18,742	3.7%	11,763	2.3%
5,038	1.1%	6,785	1.4%
$128,790	25.7%	$131,780	25.9%
$ 18,592	3.7%	$ 19,185	3.8%
5,195	1.0%	4,453	0.9%
5,552	4.3%	5,590	1.1%
$ 29,339	5.8%	$ 29,228	5.8%
36,208	7.2%	15,010	2.9%
$ 65,547	13.0%	$ 44,238	33.6%
63,243	12.7%	87,542	17.2%
$128,790	25.7%	$131,780	25.9%
$ 75,671	15.1%	$ 84,004	16.5%
$501,790	100.0%	$509,174	100.0%
$348,951	69.5%	$352,841	69.3%
$ 23,591	4.7%	$ 19,710	3.9%
3.6 times		3.9 times	
7.9 times		5.8 times	
37.3%		22.5%	
103.6%		50.5%	

sales over $600,000

Store Age Under 5 Years (93 Pharmacies)	Percent of Sales	Store Age Over 5 Years (328 Pharmacies)	Percent of Sales
$ 22,593	2.9%	$ 28,452	3.7%
32,240	4.1%	36,948	4.8%
101,641	13.1%	103,524	13.3%
$156,474	20.1%	$168,924	21.8%
21,570	2.8%	18,127	2.3%
10,953	1.4%	12,447	1.6%
$188,997	24.3%	$199,498	25.7%
$ 31,324	4.0%	$ 31,719	4.1%
10,789	1.4%	8,432	1.1%
9,075	1.2%	7,950	1.0%
$ 51,188	6.6%	$ 48,101	6.2%
50,338	6.5%	25,254	3.3%
$101,526	53.7%	$ 73,355	9.5%
87,471	11.2%	126,143	16.2%
$188,997	100.0%	$199,498	25.7%
$105,286	13.6%	$120,823	15.6%
$776,969	100.0%	$775,423	100.0%
$551,211	70.9%	$543,298	70.1%
$ 31,723	4.1%	$ 18,738	2.4%
3.1 times		3.5 times	
8.9 times		6.1 times	
36.3%		14.9%	
116.1%		58.2%	

GEOGRAPHIC SUMMARY

Geographic location may have an influence on the operating data of pharmacies (Table 10). It has been suggested that sales and expenses are altered by regional factors, such as the cost of living, population density, competition, pharmacy manpower, and third-party prescription activity.

The highest average prescription charge ($23.74) was reported in the Pacific States. The lowest ($17.55) was reported by the East South Central States. The Pacific region again reported the highest total wage package, 16.1% of total sales for 1990.

The West South Central States reported the lowest sales volume in 1990. It is interesting to note that the pharmacies in this region reported the highest ratio of prescription sales to total sales. The region reporting the highest gross margin (33.1%) was the Pacific region. The West South Central States reported the high net profit at 4.6% of total revenue. The New England States reported the highest number of prescriptions annually, 38,780. This is in contrast to the Mountain States, which dispensed 23,761 prescriptions in 1990, the lowest number of any region.

The Geographic Summary was designed to show differences in operating data with geographic location. It is suggested that a manager first compare pharmacy operating data with statistics in "The Heart of the LILLY DIGEST" (pages 13 to 24). The regional information may then be used to examine variations from the averages and, perhaps, justify them.

Table 10 *Summary by geographic regions in 1990*

Geographic Region	Total Sales ($000)	Ratio of Prescription Sales to Total Sales	Gross Margin	Total Wage Package	Rent	Total Expenses
New England States (CT, MA, ME, NH, RI, VT)	$1,215.6	63.8%	29.6%	16.1%	2.1%	28.8%
Middle Atlantic States (NJ, NY, PA)	$1,103.4	67.5%	29.6%	14.6%	2.3%	26.8%
East North Central States (IL, IN, MI, OH, WI)	$1,059.5	72.1%	28.9%	14.3%	2.2%	27.0%
West North Central States (IA, KS, MN, MO, ND, NE, SD)	$ 828.2	72.6%	29.4%	14.0%	2.2%	25.9%
South Atlantic States (DC, DE, FL, GA, MD, NC, SC, VA, WV)	$ 872.1	74.7%	30.3%	14.7%	2.2%	27.2%
East South Central States (AL, KY, MS, TN)	$ 789.6	80.8%	29.3%	15.1%	1.9%	26.2%
West South Central States (AR, LA, OK, TX)	$ 726.2	81.9%	31.0%	14.1%	2.2%	26.5%
Mountain States (AZ, CO, ID, MT, NM, NV, UT, WY)	$ 728.3	69.0%	29.9%	14.2%	2.4%	26.2%
Pacific States (AK, CA, HI, OR, WA)	$ 918.5	75.6%	33.1%	16.1%	2.8%	29.7%
LILLY DIGEST Average	$ 915.7	73.1%	30.1%	14.8%	2.3%	27.1%

*As percent of total prescriptions

Net Profit	Inventory at Cost	Annual Prescriptions	Average Prescription Charge	Pharmacy Hours Open per Week	Employed Pharmacist Hours Worked per Week	Third-Party Prescriptions*
0.8%	10.9%	38,780	$19.99	68	40	45.0%
2.8%	12.5%	36,926	$20.16	64	37	55.8%
1.9%	13.0%	37,571	$20.34	62	32	46.2%
3.6%	14.1%	30,033	$20.01	59	28	33.3%
3.2%	12.5%	32,798	$19.88	58	21	34.3%
3.2%	12.3%	36,353	$17.55	60	21	33.5%
4.6%	11.8%	28,290	$21.02	56	22	32.1%
3.7%	14.6%	23,761	$21.15	57	27	39.8%
3.4%	12.7%	29,228	$23.74	55	28	44.2%
3.0%	12.7%	32,638	$20.43	60	28	40.5%

OPERATING TRENDS

Total sales continued their upward trend during 1990, as shown in Chart 1. Sales volume for 1990 rose 13.3% over the previous year, a growth rate substantially higher than the average of 7.5% observed during the past decade.

In Table 11, pharmacy operating data are shown as percents of sales for each year during the decade. Cost of goods sold has risen from 65.7% to 79.0% of total sales. This has resulted in gross margin percent decreasing from 34.3% to 30.0%. It should be noted that the 1990 gross margin was the lowest percent of total sales in the history of the LILLY DIGEST, but gross margin *dollars* were the highest. This may reflect pharmacists' increased awareness of the benefits of covering the cost to dispense a prescription rather than having a high gross margin percent but not covering the cost to dispense.

Over the past decade, employee wages and total expenses have generally decreased in relation to total sales. Net profit has ranged from 2.7% to

Chart 1 **A Decade of Sales Growth**

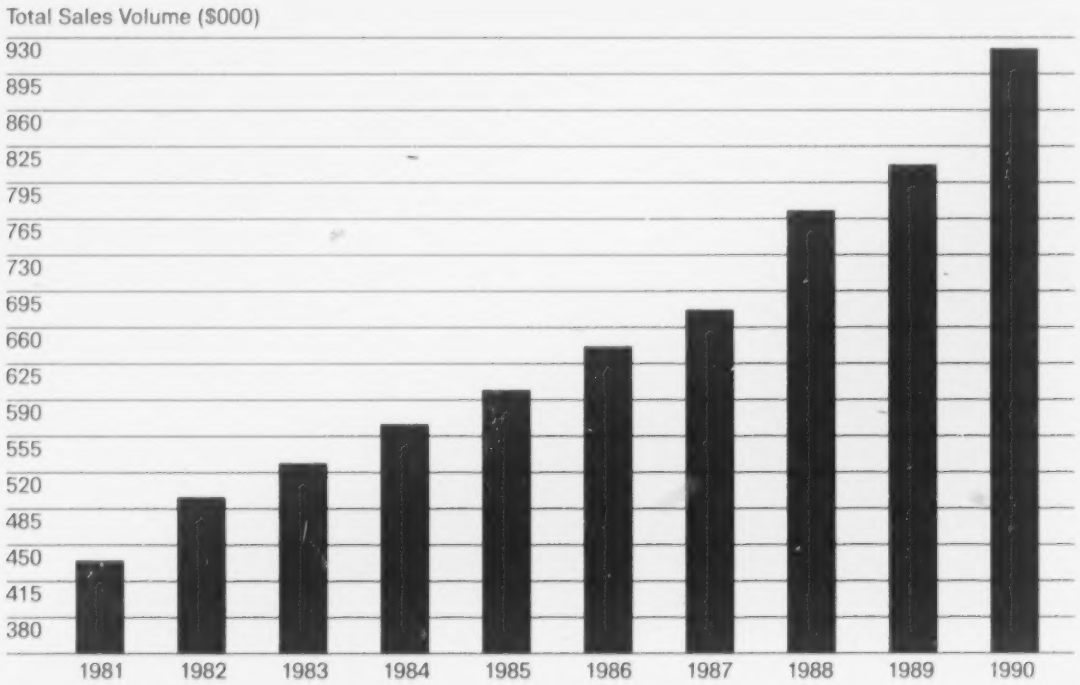

Table 11 *Averages of pharmacy operations—1981-1990 (based on all pharmacies reporting)*

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Inventory at Cost
1981	$439,133	65.7%	34.3%	6.3%	11.5%	2.5%	10.8%	31.1%	3.2%	15.7%
1982	$498,021	66.4%	33.6%	6.0%	11.3%	2.4%	11.0%	30.7%	2.9%	15.3%
1983	$528,864	66.9%	33.1%	6.0%	10.8%	2.4%	11.0%	30.2%	2.9%	14.9%
1984	$571,313	67.0%	33.0%	5.8%	10.5%	2.4%	11.2%	29.9%	3.1%	15.0%
1985	$593,918	67.4%	32.6%	5.9%	10.2%	2.4%	11.3%	29.8%	2.8%	14.9%
1986	$653,593	67.8%	32.2%	5.9%	10.0%	2.3%	11.3%	29.5%	2.7%	14.3%
1987	$678,148	67.9%	32.1%	6.3%	9.4%	2.3%	10.7%	28.8%	3.3%	14.1%
1988	$767,812	68.5%	31.5%	5.9%	9.5%	2.3%	10.8%	28.5%	3.0%	13.4%
1989	$810,541	68.9%	31.1%	5.9%	9.3%	2.3%	10.5%	28.1%	3.1%	13.2%
1990	$918,318	70.0%	30.0%	5.7%	8.9%	2.2%	10.2%	27.0%	2.9%	12.8%

3.3% of total revenue. Inventory at cost has decreased over the last 10 years from 15.7% of sales in 1981 to 13.6% of sales in 1990.

Ten-Year Trends in Balance Sheet and Financial Ratio Data

Table 12 shows trends in balance sheet data, expressed as percents of sales, along with selected financial ratios. Inventory as a percent of sales decreased to 13.6% in 1990, the lowest in the past decade. Current assets and current liabilities decreased to their lowest levels of the past decade but still yielded an excellent 3.4 ratio. Fixed assets declined to 2.7% of sales, which may indicate that store owners should evaluate the need for updating and remodeling store fixtures. Net profit decreased slightly to 3.0% of sales. Total liability fell to 10.3% of total sales, the lowest figure in the past decade. Net working capital fell to 15.6%, which is about mid-range for the last 10 years.

The current ratio (current assets to current liabilities) increased fr n 3.1 in 1980 to 3.4 times in 1990. This may suggest that the typical pharmacy owner is maintaining adequate funds to satisfy current obligations. However, the uptrend of net sales to net worth implies that LILLY DIGEST pharmacies have become more leveraged. Return on investment dropped below 20% to 19.4%.

Total debt to net worth, an indication of how highly leveraged an operation is, declined from previous years. This decline in owners' indebtedness may indicate that profits are being used to remove debt and thereby increase the solvency of an operation.

Table 12 *Ten-year balance sheet trends*

	1990	1988	1986	1984	1982	1980
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets						
Current assets						
Cash	3.6%	3.6%	3.9%	3.6%	3.5%	3.4%
Accounts receivable	4.5%	4.5%	4.0%	3.9%	3.8%	3.8%
Inventory	13.6%	14.2%	14.6%	15.3%	15.5%	16.4%
Total current assets	21.7%	22.3%	22.5%	22.8%	22.8%	23.6%
Fixed assets less depreciation	2.7%	3.5%	3.7%	3.8%	3.8%	3.9%
Other assets						
Prepaid expenses, deposits, etc.	1.4%	1.4%	2.0%	1.2%	1.7%	1.5%
Total assets*	25.8%	27.2%	28.2%	27.8%	28.3%	29.0%
Liabilities						
Current and accrued liabilities						
Accounts payable	4.0%	3.8%	4.1%	4.2%	4.4%	4.6%
Notes payable (within 1 year)	1.2%	1.4%	1.5%	1.5%	1.6%	1.6%
Accrued expenses and other liabilities	1.1%	1.1%	1.2%	1.5%	1.6%	1.5%
Total current and accrued liabilities	6.3%	6.3%	6.8%	7.2%	7.6%	7.7%
Long-term liabilities						
Notes payable (later than 1 year)	4.0%	4.7%	5.3%	4.3%	4.5%	4.5%
Total liabilities	10.3%	11.0%	12.1%	11.5%	12.1%	12.2%
Net Worth	15.5%	16.2%	16.1%	16.2%	16.2%	16.8%
Total liabilities and net worth*	25.8%	27.2%	28.2%	27.8%	28.3%	29.0%
Net working capital	15.6%	16.0%	15.7%	15.5%	15.3%	15.9%
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Purchases	69.8%	68.3%	67.7%	67.7%	66.9%	66.6%
Net profit (before taxes)	3.0%	3.4%	3.2%	3.5%	3.3%	3.7%
Financial Ratios						
Current assets to current liabilities	3.4 times	3.5 times	3.3 times	3.1 times	3.0 times	3.1 times
Net sales to net worth	6.5 times	6.2 times	6.2 times	6.2 times	6.2 times	6.0 times
Net profit (before taxes) on net worth	19.4%	20.9%	19.8%	21.5%	20.3%	21.8%
Total liabilities to net worth	66.5%	68.3%	74.9%	71.3%	74.3%	72.8%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

PHARMACY LOCATION

The operating statistics of LILLY DIGEST pharmacies according to location are shown in Tables 13 and 14. This year, LILLY DIGEST operations were categorized as rural or metropolitan locations, then segmented into 4 types of operations—apothecary, shopping center, medical building, and traditional. When compared with data from the previous year, the percent of participating pharmacies from rural areas (population under 50,000) slightly decreased to 69% of the stores reporting.

Metropolitan shopping center pharmacies continued to report the highest average sales, largest floor area, and longest store hours for the third consecutive year. These pharmacies, in addition, had the lowest net profit and among the lowest total incomes of self-employed proprietors as a percent of total sales.

The largest number of stores reporting were rural, traditional pharmacies. Gross margin for these stores was 29%, which is slightly below the average LILLY DIGEST operation. These phar-

Table 13 *Summary of pharmacy operations by location*

Rural Averages per Pharmacy	Apothecary (127 Pharmacies)	Shopping Center (137 Pharmacies)	Medical Building (83 Pharmacies)	Traditional (663 Pharmacies)
Sales				
Prescription	$579,799— 85.8%	$ 728,835— 63.6%	$725,935— 91.8%	$631,634— 71.9%
Other	95,800— 14.2%	416,273— 36.4%	64,462— 8.2%	246,713— 28.1%
Total sales	$675,599—100.0%	$1,145,108—100.0%	$790,397—100.0%	$878,347—100.0%
Cost of goods sold	467,001— 69.1%	800,678— 69.9%	538,856— 68.2%	619,602— 70.5%
Gross margin	$208,598— 30.9%	$ 344,430— 30.1%	$251,541— 31.8%	$258,745— 29.5%
Expenses				
Proprietor's or manager's salary	$ 51,644— 7.6%	$ 58,278— 5.1%	$ 55,510— 7.0%	$ 50,112— 5.7%
Employees' wages	40,754— 6.0%	110,875— 9.7%	66,029— 8.4%	77,245— 8.8%
Rent	12,472— 1.8%	31,670— 2.8%	20,495— 2.6%	16,762— 1.9%
Miscellaneous operating costs	32,449— 4.8%	55,830— 4.9%	36,169— 4.6%	38,535— 4.4%
Total expenses	$172,493— 25.5%	$ 321,175— 28.0%	$214,561— 27.1%	$231,247— 26.3%
Net profit (before taxes)	$ 36,105— 5.4%	$ 23,255— 2.0%	$ 36,980— 4.7%	$ 27,498— 3.1%
Proprietor's withdrawals	51,644— 7.6%	58,278— 5.1%	55,510— 7.0%	50,112— 5.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 87,749— 13.0%	$ 81,533— 7.1%	$ 92,490— 11.7%	$ 77,610— 8.8%
Value of inventory at cost and as a percent of sales				
Prescription	$ 57,263— 9.9%	$ 73,386— 10.1%	$ 60,833— 8.4%	$ 64,272— 10.2%
Other	16,784— 17.5%	98,953— 23.8%	23,929— 3.3%	55,122— 22.3%
Total value	$ 74,047— 11.0%	$ 172,339— 15.1%	$ 84,762— 10.7%	$119,394— 13.6%
Annual rate of inventory turnover	6.5 times	4.8 times	6.8 times	5.3 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	433 $1,341.82	484 $1,504.52	538 $1,352.01	437 $1,375.72
Other	1,072 89.00	4,110 101.29	853 77.41	2,652 93.43
Total size	1,505 $ 459.82	4,594 $ 249.25	1,391 $ 582.33	3,109 $ 289.10
Rent per square foot*	$8.29	$6.89	$14.73	$5.39
Number of prescriptions dispensed				
New	14,775— 50.3%	18,150— 52.0%	17,379— 53.1%	15,998— 50.2%
Renewed	14,591— 49.7%	16,721— 48.0%	15,343— 46.9%	15,846— 49.8%
Total prescriptions dispensed	29,366—100.0%	34,871—100.0%	32,722—100.0%	31,844—100.0%
Prescription charge	$19.74	$22.18	$22.18	$19.84
Number of hours per week				
Pharmacy was open	51 hours	66 hours	53 hours	60 hours
Worked by proprietor	49 hours	60 hours	49 hours	58 hours
Worked by employed pharmacist(s)	14 hours	34 hours	27 hours	24 hours
Percent of total prescriptions covered by:				
Medicaid	16.9%	15.7%	18.3%	18.0%
Other third party	20.5%	20.5%	19.5%	19.8%

*Based on averages of pharmacies that reported all data

macies also reported having the lowest rent per square foot at $5.39—$1.88 below the LILLY DIGEST average.

The largest net profit as a percent of total sales was 6.4% reported by pharmacies in medical buildings in metropolitan locations. These stores also reported the highest total income for proprietors as a percent of total sales.

Metropolitan medical building pharmacies turned over their inventory an average of 7.6 times a year, which is significantly above the 5.6 times observed in the average LILLY DIGEST store. Metropolitan shopping center pharmacies report dispensing the most prescriptions. Metropolitan apothecary operations reported the highest average prescription price of $21.74. The percent of third-party prescriptions ranged from 36% in rural shopping center stores to 52% in metropolitan medical building pharmacies.

As might be anticipated, apothecary and medical building pharmacies (regardless of location) reported the highest rent per square foot; however, they also reported the highest sales per square foot.

Table 14 *Summary of pharmacy operations by location*

Metropolitan Averages per Pharmacy	Apothecary (81 Pharmacies)	Shopping Center (77 Pharmacies)	Medical Building (110 Pharmacies)	Traditional (195 Pharmacies)
Sales				
Prescription	$686,738— 85.6%	$ 800,480— 63.1%	$709,408— 84.6%	$ 739,997— 69.7%
Other	115,092— 14.4%	468,024— 36.9%	128,994— 15.4%	321,466— 30.3%
Total sales	$801,830—100.0%	$1,268,504—100.0%	$838,402—100.0%	$1,061,463—100.0%
Cost of goods sold	562,376— 70.1%	889,130— 70.1%	566,472— 67.6%	745,872— 70.3%
Gross margin	$239,454— 29.9%	$ 379,374— 29.9%	$271,930— 32.4%	$ 315,591— 29.7%
Expenses				
Proprietor's or manager's salary	$ 54,142— 6.8%	$ 60,085— 4.7%	$ 52,564— 6.3%	$ 56,932— 5.4%
Employees' wages	57,567— 7.2%	130,479— 10.3%	70,185— 8.4%	106,820— 10.1%
Rent	16,500— 2.1%	39,417— 3.1%	22,365— 2.7%	24,631— 2.3%
Miscellaneous operating costs	31,852— 4.0%	53,332— 4.2%	34,784— 4.1%	59,823— 5.6%
Total expenses	$205,670— 25.7%	$ 356,233— 28.1%	$218,298— 26.0%	$ 312,831— 29.5%
Net profit (before taxes)	$ 33,784— 4.2%	$ 23,141— 1.9%	$ 53,632— 6.4%	$ 24,710— 2.3%
Proprietor's withdrawals	54,142— 6.8%	60,085— 4.7%	52,564— 6.3%	56,932— 5.4%
Total income of self-employed proprietor (before taxes on income and profits)	$ 87,926— 11.0%	$ 83,226— 6.6%	$106,196— 12.7%	$ 81,642— 7.7%
Value of inventory at cost and as a percent of sales				
Prescription	$ 67,459— 9.8%	$ 67,765— 8.5%	$ 65,623— 9.3%	$ 78,170— 10.6%
Other	19,921— 17.3%	98,043— 20.9%	10,839— 8.4%	49,669— 15.5%
Total value	$ 87,380— 10.9%	$ 165,808— 13.1%	$ 76,462— 9.1%	$ 127,839— 12.0%
Annual rate of inventory turnover	6.7 times	5.4 times	7.6 times	5.9 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	507 $1,360.07	467 $1,717.70	518 $1,390.81	514 $1,432.16
Other	786 145.38	4,392 108.03	656 202.54	2,348 136.33
Total size	1,293 $ 660.81	4,859 $ 268.02	1,174 $ 740.90	2,862 $ 393.07
Rent per square foot*	$12.76	$8.11	$19.05	$8.61
Number of prescriptions dispensed				
New	16,691— 52.8%	19,968— 53.7%	21,593— 64.1%	15,602— 43.8%
Renewed	14,904— 47.2%	17,241— 46.3%	12,094— 35.9%	20,019— 56.2%
Total prescriptions dispensed	31,595—100.0%	37,209—100.0%	33,687—100.0%	35,621—100.0%
Prescription charge	$21.74	$21.51	$21.06	$20.77
Number of hours per week				
Pharmacy was open	52 hours	69 hours	52 hours	65 hours
Worked by proprietor	46 hours	60 hours	42 hours	56 hours
Worked by employed pharmacist(s)	24 hours	47 hours	33 hours	35 hours
Percent of total prescriptions covered by:				
Medicaid	18.1%	15.8%	23.7%	18.4%
Other third party	26.1%	27.2%	27.9%	27.7%

*Based on averages of pharmacies that reported all data

SELECTED SERVICE DATA

Selected service data are illustrated by geographic region in Table 15. For the third consecutive year, LILLY DIGEST participants in the West North Central States maintained the highest percent of operations servicing long-term care facilities. Long-term care facilities accounted for 24% of the total sales in pharmacies operating in the New England States, the highest percent of any region. As the average age of the United States population increases, it will be interesting to see if the percent of independent community pharmacies servicing long-term care facilities increases and to observe the impact such changes might have on total sales.

Two regions, Middle Atlantic States and East North Central States, reported over 25% of the LILLY DIGEST stores providing service to health maintenance organizations (HMOs). In the West North Central States, total sales from HMOs was 21% of total sales, significantly above the national average of 11%. The New England, South Atlantic, East South Central, and West South Central States were the only regions to report less than 10% of total sales from HMOs.

The percent of LILLY DIGEST operations that indicated participation in pharmacy services administrative organizations (PSAOs) decreased from 28% last year to 24% in this reporting year. For the third consecutive year, over 70% of the pharmacies in the West North Central States reported they

Table 15 *Geographic summary of selected service data*

Region	Servicing Long-Term Care Facility	Sales From Long-Term Care Facility	Providing Service to HMO	Total Sales From HMO	Belong to PSAO	Belong to Retail Buying Group	Prescription Purchases Using Buying Group Contracts
New England States (CT, MA, ME, NH, RI, VT)	28%	24%	22%	9%	22%	51%	33%
Middle Atlantic States (NJ, NY, PA)	18	14	27	10	28	42	37
East North Central States (IL, IN, MI, OH, WI)	23	14	30	14	16	54	41
West North Central States (IA, KS, MN, MO, ND, NE, SD)	54	13	22	21	27	73	39
South Atlantic States (DC, DE, FL, GA, MD, NC, SC, VA, WV)	18	14	13	9	22	53	37
East South Central States (AL, KY, MS, TN)	28	12	12	7	21	56	27
West South Central States (AR, LA, OK, TX)	52	10	13	6	18	41	46
Mountain States (AZ, CO, ID, MT, NM, NV, UT, WY)	38	14	22	11	28	47	49
Pacific States (AK, CA, HI, OR, WA)	22	14	23	16	32	63	29
United States average	31%	14%	20%	11%	24%	53%	38%

belonged to buying groups. However, pharmacies from the East North Central States, West South Central States, and Mountain States reported purchasing over 40% of their prescription products utilizing group contracts—the highest regional percentages.

Table 16 displays selected service data relative to sales volume. Sales and service to long-term care facilities, as in previous years, reflects no real trend relative to total sales. It appears that a pharmacy is more likely to provide service to health maintenance organizations as the sales volume of the pharmacy advances. Larger volume stores maintain a higher percent of stores participating in PSAOs. Perhaps owners/managers of such operations are more acutely aware of the benefits of gaining business from awards to PSAOs. Pharmacies with total sales under $400,000 were the only segment to report less than 50% of their stores maintaining membership in retail buying groups. However, these operations had the highest percent of prescription purchases using buying group contracts.

As independent community pharmacies continue to adapt to changes in the health care environment, trends in the service sectors should be monitored. The service areas analyzed in this section along with third-party prescription activity may play an increasing role in the total financial picture of an operation and its net profit.

Table 16 *Sales summary of selected service data*

Sales	Servicing Long-Term Care Facility	Sales From Long-Term Care Facility	Providing Service to HMO	Total Sales From HMO	Belong to PSAO	Belong to Retail Buying Group	Prescription Purchases Using Buying Group Contracts
Under $400,000	26%	14%	15%	13%	18%	42%	46%
$400,000-$700,000	35	14	20	13	24	60	35
$700,000-$1,000,000	29	13	18	16	24	52	41
Over $1,000,000	32	13	26	13	24	58	34
United States average	31%	14%	20%	14%	23%	53%	39%

CONCLUSION

Stores that reported low (2% to 15%) and high (55% to 99%) third-party prescription volume as a percent of total prescriptions are shown in Table 17. Pharmacies with a high volume of third-party prescriptions reported lower gross margin and total income to proprietor as a percent of total sales. These operations also reported a lower average prescription charge. It is interesting to observe that high third-party activity pharmacies reported only a slightly lower net profit as a percent of total sales than did low third-party activity operations. This is in contrast to the previous year when high third-party stores reported the same net profit as the low third-party pharmacies.

For 1990 operating data, a new record was established for total sales. Gross margin as a percent of sales was the lowest in the history of the LILLY DIGEST, but gross margin dollars were the highest ever recorded in the DIGEST. The average prescription price was $20.39. From the data received, it is not possible to determine if this increase is the result of retail price increases and/or growth in days of therapy dispensed per prescription alone.

The objective of the first LILLY DIGEST, which was reflective of the 1932 operational results of 271 pharmacies, was to provide authentic and useful data on retail pharmacy operations so that owners, managers, and their financial advisors could evaluate individual operations and, perhaps, be more successful in their business endeavors. This objective has remained unchanged through the years.

Eli Lilly and Company will provide a free analysis of any independent retail pharmacy's operation. The form on pages 37 and 38 may be used to take advantage of this confidential service.

Table 17 LILLY DIGEST *averages of selected operating statistics*

Averages per Pharmacy	Selected Stores, Low Third-Party Activity (107 Pharmacies)	Selected Stores, High Third-Party Activity (233 Pharmacies)
Sales		
Prescription	$614,948— 74.4%	$ 740,999— 72.0%
Other	211,143— 25.6%	287,962— 28.0%
Total sales	$826,091—100.0%	$1,028,961—100.0%
Cost of goods sold	$577,293— 69.9%	$ 727,163— 70.7%
Gross margin	$248,798— 30.1%	$ 301,798— 29.3%
Expenses		
Proprietor's or manager's salary	$ 46,358— 5.6%	$ 54,260— 5.3%
Employees' wages	74,099— 9.0%	92,611— 9.0%
Rent	19,696— 2.4%	22,681— 2.2%
Miscellaneous operating expenses	32,376— 3.9%	42,546— 4.1%
Total expenses	$218,497— 26.5%	$ 264,736— 25.7%
Net profit (before taxes)	$ 30,301— 3.7%	$ 37,062— 3.6%
Add proprietor's withdrawal	46,358— 5.6%	54,260— 5.3%
Total income of self-employed proprietor (before taxes on income and profit)	$ 76,659— 9.3%	$ 91,322— 8.9%
Number of prescriptions dispensed		
New	13,951— 46.9%	20,196— 55.5%
Renewed	15,817— 53.1%	16,193— 44.5%
Total prescriptions dispensed	29,768—100.0%	36,392—100.0%
Prescription charge	$20.66	$20.36
Third-party prescriptions	11% (2-15%)	68% (55-99%)

*Based on averages of pharmacies that reported all data

ANALYSIS WORK SHEET

If you wish to perform your own analysis, this work sheet will be useful . . . fill in and compare.

If you would like to have the Lilly Analysis Service analyze your financial data for the current year, just complete the "Current Data" column on the Income and Expense Statement and Balance Sheet and fill in the Supplemental Information section below. Then, mail the analysis work sheet to Eli Lilly and Company, Department MC-610, Building 74/5, Indianapolis, Indiana 46285.

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 13-24)	Notes (● or ●)
Net sales	$	%	%	%	
Inventory (start of period) of goods at cost	$	%	%	%	
Total amount of merchandise purchased	$	%	%	%	
Inventory (end of period) of goods at cost	$	%	%	%	
Cost of goods sold	$	%	%	%	
Gross margin (net sales less cost of goods sold)	$	%	%	%	
Expenses					
Proprietor's or manager's salary	$	%	%	%	
Employees' wages	$	%	%	%	
Rent	$	%	%	%	
Heat, light, power, and telephone	$	%	%	%	
Accounting, legal, and other professional fees	$	%	%	%	
Taxes (except on buildings, income, and profit) and licenses	$	%	%	%	
Insurance (except on buildings)	$	%	%	%	
Interest paid	$	%	%	%	
Computer	$	%	%	%	
Depreciation (except on buildings)	$	%	%	%	
Miscellaneous	$	%	%	%	
Total	$	%	%	%	
Net operating profit (gross margin less total expenses)	$	%	%	%	

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 25-27)	Notes (● or ●)
Current assets					
Cash	$	%	%	%	
Accounts receivable	$	%	%	%	
Merchandise inventory	$	%	%	%	
Total	$	%	%	%	
Fixed assets (exclude land and buildings)					
Fixtures, equipment, leasehold improvements	$	%	%	%	
Less depreciation reserve	$	%	%	%	
Net fixed assets	$	%	%	%	
Other assets (prepaid expenses, deposits)	$	%	%	%	
Total	$	%	%	%	
Current liabilities					
Accounts payable	$	%	%	%	
Notes payable (within one year)	$	%	%	%	
Accrued expenses and other liabilities	$	%	%	%	
Total	$	%	%	%	
Long-term liabilities (notes payable later than 1 year)	$	%	%	%	
Total liabilities	$	%	%	%	
Net worth	$	%	%	%	

Your self-analysis work sheet continues on the next page

Other Calculations	Current Data	Last Year's Data	Lilly Digest Data (Comparable Categories) (see pages 13-24, 25-27)	Notes (◆ or ◆)
Inventory turnover	times	times	times	
Prescription sales:prescription inventory	$	$	$	
Average prescription charge	$	$	$	
Number of prescriptions				
Current assets:current liabilities	times	times	times	
Net sales:net working capital	times	times	times	
Long-term liabilities:net working capital	%	%	%	
Accounts payable outstanding	days	days	days	
Net profit:net worth	%	%	%	

Supplemental Information

Size of pharmacy: _____ sq. ft.

Size of prescription department: _____ sq. ft.

Number of hours open per week: _____

Number of days open per week: _____

Years and type of operation under same ownership:

☐ Under 2 ☐ 2 to 5 ☐ 6 to 10 ☐ Over 10

☐ Sole proprietorship ☐ Partnership ☐ Corporation

Pharmacy location:

☐ Metropolitan (population over 50,000) ☐ Rural (population under 50,000)

Pharmacy type:

☐ Traditional ☐ Shopping center ☐ Medical office building ☐ Apothecary

Business space is: ☐ Rented ☐ Owned

Figures submitted last year? ☐ Yes ☐ No

Number of prescriptions dispensed:
(for the period of time covered by the Income and Expense Statement)

New _____

Renewals _____

Total _____

Total prescription receipts: $ _____

Prescription inventory: $ _____

Percentage of total prescriptions covered by:

Medicaid ____%

Other third party ____%

Individual Analysis (Send individual analysis to:)

Name or P.O. Box _____

Street _____

City _____ State _____

Zip Code _____

REFER INQUIRIES TO: EDITOR, Lilly Digest
(317-276-6009)

60-DR-0817-0 PRINTED IN USA 100187-129160 © 1991, ELI LILLY AND COMPANY